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S. HRG. 99-453

REDOCUMENTATION OF CERTAIN VESSELS

PAID ORIGINAL

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 1461

TO DIRECT THE SECRETARY OF THE DEPARTMENT IN WHICH THE UNITED STATES COAST GUARD IS OPERATING TO CAUSE CERTAIN VESSELS TO BE DOCUMENTED AS VESSELS OF THE UNITED STATES SO AS TO BE ENTITLED TO ENGAGE IN THE COASTWISE TRADE, AND FOR OTHER PURPOSES

SEPTEMBER 12, 1985

Printed for the use of the
Committee on Commerce, Science, and Transportation

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READMIT U.S.-BUILT FOREIGN-FLAG SHIPS TO THE JONES ACT

THURSDAY, SEPTEMBER 12, 1985

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:25 a.m. in Room 253, Russell Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: David Dye, staff counsel and John Hardy, minority staff counsel.

OPENING STATEMENT BY SENATOR STEVENS

Senator STEVENS We are meeting today to hear testimony on Senator Inouye's bill, S. 1461, to allow passenger ships that were built in the United States and subsequently sold foreign to return to the U.S. flag with full coastwise trading privileges. The bill provides a 2-year window to take advantage of this permission.

With the exception of one ship, the *Liberte*, any vessel repatriated under this legislation could sail anywhere in the domestic trades for the first 2 years of operation except in the intra-Hawaiian Island trades. The *Liberte* could operate only in the intra-Hawaiian trades.

All vessels admitted under this bill would have to have subsequent rebuilding and repairs done in the United States. The normal ownership requirements for vessels engaged in coastwise trades will also pertain.

This legislation is needed because of a longstanding Customs Service interpretation of an 1886 cabotage law which holds that any U.S.-built passenger vessel which is sold foreign will forever lose its domestic trading privileges, even if it is subsequently repurchased by a U.S. citizen and reregistered under the U.S. flag. The result of adding this impediment on top of the economically onerous U.S.-build requirement has been a U.S.-flag cruise fleet composed of only two vessels.

The last large passenger ship was built in this country in 1958. We have never built a large ship designed specifically for modern day luxury cruises and are unlikely to do so in the near future because of the high cost of building here.

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Meanwhile, the U.S.-based cruise industry has been growing at a tremendous rate. The number of passengers embarking at U.S. ports grew from 590,000 in 1970 to over a million in 1978. This summer there were approximately 85 foreign-flag ships operating from our shores.

I believe that it is high time for American businesses and American seamen to share in this growth industry. The legislation before us today is a small step in the right direction. It will help to give American operators a foothold that someday could be expanded to more and newer ships once a market share has been secured.

We should also remember that passenger ships, like cargo vessels, are national defense assets. The Navy has recently identified the need for enough ships to transport 17,000 troops in the event of war or other national emergency. Our two-ship commercial fleet can carry only 4,000 troops without modifying the ships. Every ship that comes home under this bill will significantly improve this shortfall.

I am pleased to be a co-sponsor of this legislation and look forward to working with my good friend from Hawaii to ensure speedy passage of S. 1461 in the Senate.

I understand Congresswoman Helen Bentley was here. I spoke to her and she had to go on. We will put her statement in the record.

[The statement follows:]

STATEMENT OF HON. HELEN DELICH BENTLEY, U.S. REPRESENTATIVE FROM MARYLAND

Mr. Chairman, I appreciate your allowing me to make a statement here this morning in regard to the U.S. flag cruise ship legislation pending before your committee.

As former chairman of the Federal Maritime Commission, a former maritime news editor and now a member of the House Merchant Marine and Fisheries Committee, I have had a deep interest and concern about various aspects of our maritime industry, particularly two segments which are most affected by this and similar legislation—namely the lack of passenger-cruise ships and the rapidly declining employment in our shipyards and their dwindling numbers.

S. 1461 can help both of those!

Having cruise ships under the U.S. flag will mean that some of those millions of dollars spent each year by Americans to enjoy a brief respite at sea will find their way into U.S. coffers—resulting in many benefits in this country rather than adding to the gigantic inbalance of trade from which we are suffering.

And if we can have this reconstruction work on the hulls and engines—as well as all future repairs—performed in American shipyards, it will help that ailing industry.

So I want to commend Senator Inouye for taking the lead and introducing S. 1461 and compliment you, Senator Stevens, for holding hearings so promptly on this.

I will be happy to introduce a companion bill on the House side, or amend the one I introduced yesterday to include rehabbed vessels. I would like to call that bill to your attention and ask for your support on it.

Because of the rising potential of business on American cruise ships, there is an operator ready to build a new one—provided he can do for a new vessel what you are in essence proposing on these older rehabbed vessels—mainly to have all of the hull and engine work performed in U.S. yards and the "hotel" work overseas. In this manner, the project becomes financially feasible—and that is the name of the game—is it affordable or not?

At the present time, Bethlehem Sparrows Point Shipyard in my district has an agreement which Wartsila Shipyards in Finland for this arrangement. It would allow all of the heavy steel, engine and mechanical work to be performed in a U.S. yard, providing several thousand of man years of U.S. labor and allowing the ship to ply between U.S. ports. However, to make it totally financially competitive, the hotel or passenger quarters and public accommodations would be installed and decorated overseas.

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The Coast Guard has advised me that existing law does not cover a new vessel which is the reason I have introduced this legislation—H.R. 3262—as recommended by the Coast Guard.

Thank you again, Senator Stevens, Senator Inouye—for your continuing interest in the American Merchant Marine.

Senator STEVENS I yield to my colleague, Senator Inouye.

OPENING STATEMENT BY SENATOR INOUYE

Senator INOUYE Thank you, Mr. Chairman. I have a brief opening statement.

After extensive study and investigation into the problems of U.S.-flag passenger vessels, especially lay-up of all the U.S.-flag passenger vessels which had operated on the trans-Atlantic routes or in the Caribbean cruise trade, the 92nd Congress concluded that the seven U.S.-built, U.S.-flag passenger vessels which were in lay-up could not compete with jet aircraft in point to point transportation; could not compete with foreign flag cruise vessels; and represented a complete economic waste, whereas funds generated from the net sale proceeds could be profitably invested in new, U.S.-flag cargo vessels.

Accordingly, Congress enacted legislation to facilitate the foreign sale of five of those vessels—the *Brasil, Argentina, Constitution, Santa Paula* and *Santa Rosa.* With the exception of the *Santa Rosa,* all of them were subsequently sold foreign.

Later, Congress enacted similar legislation for a sixth vessel, the *Independence,* which was also sold foreign.

As of 1980, there was no U.S.-flag passenger cruise fleet. Then, however, the *Independence* reentered the U.S. domestic trades as a passenger cruise vessel, as a consequence of legislation enacted the previous year, and in 1982 her sister ship, the *Constitution,* was given the same authority.

Since then, for several reasons efforts to increase the size of that fleet without compromising the integrity of our laws limiting the domestic trade to U.S.-built vessels have not materialized.

This bill, S. 1461, attempts to build on the successful experience we have had with the *Independence* and the *Constitution* by authorizing any remaining U.S.-built passenger vessels which are subsequently registered foreign to be reflagged U.S. with coastwise trading privileges. At the same time, the bill also recognizes that vessels operating in our domestic trades must be built in the United States.

At this point, without objection, Mr. Chairman, I would like to include in the hearing record a MarAd-prepared inventory of U.S.-built passenger vessels which could conceivably benefit from the enactment of this measure.

Senator STEVENS Without objection.

[The bill and material referred to follows:]

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99TH CONGRESS
1ST SESSION

S. 1461

To direct the Secretary of the department in which the United States Coast Guard is operating to cause certain vessels to be documented as vessels of the United States so as to be entitled to engage in the coastwise trade, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JULY 18 (legislative day, JULY 16), 1985

Mr. INOUYE (for himself and Mr. STEVENS) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

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A BILL

To direct the Secretary of the department in which the United States Coast Guard is operating to cause certain vessels to be documented as vessels of the United States so as to be entitled to engage in the coastwise trade, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) notwithstanding any other provision of law or of prior contract with the United States, the Secretary of the department in which the United States Coast Guard is operating shall cause any vessel which was built in the United States, which operated before the date of enactment of this

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Act as a passenger vessel, as defined in section 613(a) of the Merchant Marine Act, 1936 (46 App. U.S.C. 1183(a)), and which was sold and transferred to foreign ownership, registry, and flag with the approval of the Federal Government, to be documented as a vessel of the United States entitled to engage in the coastwise trade, so long as—

(1) the vessel is in compliance with all other requirements for vessels engaging in the coastwise trade;

(2) any rebuilding of the vessel, or repair work constituting a rebuilding, accomplished after the vessel is documented as a vessel of the United States pursuant to this section shall be effected within the United States, its territories (not including trust territories), or its possessions;

(3) the vessel is owned by a citizen or citizens of the United States as defined in the applicable laws prescribing the qualifications for vessels to engage in the coastwise trade; and

(4) for hire carriage in such trade is limited to passengers, their accompanying baggage, and one thousand measurement tons of cargo, of forty cubic feet each, per annum in any coastwise trade: *Provided*, That for hire carriage of cargo in excess of the aforesaid one thousand tons shall be unlawful.

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(b) The provisions of this section shall expire two years after the date of enactment of this Act.

SEC. 2. (a) The steamship vessel Liberté (official Coast Guard numbered 277363) shall lose the right conferred by the first section of this Act to engage in the coastwise trade if, during the first two years of operation as a vessel of the United States, it operates on a route in the coastwise trade other than the intra-Hawaiian Islands trade.

(b) Any other vessel shall lose the right conferred by the first section of this Act to engage in the coastwise trade if, during the first two years of operation as a vessel of the United States, it operates on a route in the coastwise trade in the intra-Hawaiian Islands trade.

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U.S. DEPARTMENT OF TRANSPORTATION,
MARITIME ADMINISTRATION,
Washington, DC, July 31, 1985

JOHN D. HARDY, Esq.,
Minority Counsel, Merchant Marine Subcommittee, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, DC.

DEAR JOHN: Pursuant to your recent request, I am enclosing a summary of the status of U.S.-built passenger vessels which have been reflagged foreign and which could, therefore, benefit from enactment of S. 1461, allowing U.S. registry with coastwise trading privileges for such vessels.

The present physical condition of these vessels can only be speculated upon. Those which currently cruise from U.S. ports will presumably be in compliance with U.S. Coast Guard safety and environmental protection standards applicable to vessels entering those ports. The olders vessels, some of them even pre-war, which have no recent history of serving U.S. ports, would likely require considerable upgrading to attain compliance. Such upgrading, together with probable re-engining, would make them economically unattractive candidate for reflagging.

If I can be of further assistance, do not hesitate to give me a call.

Sincerely,

GARRETT E. BROWN, Jr.,
Acting Deputy Maritime Administrator.

Enclosure.

ATTACHMENT

1. *Santa Paula.*—Currently the Kuwait Marriott Hotel. Not operable as a ship. Built in 1958 with a passenger capacity of 228 and operated by Prudential Grace Lines. Sold in 1973 to Sun Lines, a Marriott subsidiary, and operated under Greek registry as *Stella Polaris.* Sold in 1976 to a joint venture involving Marriott and the Kuwaiti National Hotel and Tourism Company and laid-up until converted to present configuration.

2. *Santa Rosa.* (11,353 GRT)—Currently owned by Vintero Sales Corporation, the U.S. arm of a Venezuelan firm, and laid-up at Baltimore since 1975. Sister ship to *Santa Paula,* also built in 1958 with a passenger capacity of 300. Operated by Prudential Grace until 1971, when laid-up for first time. Never reflagged.

3. *President Roosevelt* (18,920 GRT)—Currently the *Emerald Seas,* operated under Panamanian registry in the Florida/Bahamas cruise trade by Eastern Cruise Lines, Inc., of Miami. Built in 1944 with a passenger capacity of 920, she sailed for American President Lines until 1970, when sold and reflagged foreign. Present passenger capacity is approximately 765. Arrived Nassau 7/9/85 on a cruise.

4. *America* (26,353 GRT)—About to be renamed *Alferdoss,* she is owned by Silvermoon Ferries, Ltd., of Piraeus, Greece, and reported as laid-up. Built in 1940 with a passenger capacity of 2,435, she was operated by United States Lines until 1964, when sold and reflagged Panamanian.

5. *Volendam* (23,857 GRT)—Just renamed *Liberte,* vessel has been laid-up at Sasebo, Japan, since 11/84 under Panamanian registry. She was recently reported sold to American Hawaii Cruises (operator of the *Constitution* and *Independence* in the intra-Hawaii cruise trade), who has publicly indicated plans to refurbish her and then operate her in inter-island cruising in Tahiti starting by the end of 1985. Built in 1958 as the *Brasil* with a passenger capacity of 575, she was operated by Moore McCormack Lines and then sold in 1972 to Holland America Line. The latter owner ran her mostly under Netherlands Antilles registry until 1984. Present passenger capacity is approximately 694.

6. *Veendam* (23,395 GRT)—Currently the *Bermuda Star,* vessel is operating under Panamanian registry for a subsidiary of Bahamas Cruise Lines. Current bareboat charter from owner Billinhurst Shipping, Ltd., runs through 1986, with renewal options for up to an additional 3 years. Sister ship to *Volendam,* she was built in 1958 as the *Argentina* with a passenger capacity of 671, and also ran for Moore McCormack until sold to Holland America Line in 1972. Sailed for that owner until 1984 under Netherlands Antilles registry. Present passenger capacity is approximately 690.

7. (a) *Britanis* (18,254 GRT)—Currently operated under Panamanian registry by Chandris Cruises. Owner is Ajax Navigation Co. Built in 1932 as the *Monterey,* she sailed for Oceanic Steamship Company, a Matson Navigation subsidiary. She was transferred to foreign registry in 1970. Present passenger capacity is approximately 873. Vessel sailed from New York 7/9/85.

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(b) *Ellinis* (18,564 GRT)—Laid up in Piraeus, Greece, since 1980, under Greek registry. A sister to the *Britanis*, she was built in 1932 as the *Lurline* and operated by Oceanic Steamship Company. She was transferred to foreign registry in 1963. Owner is Australia Line, S.A. Present passenger capacity is approximately 931.

(c) *Jin Jiang* (14,812)—Currently owned by Shanghai Jin Jiang Shipping Company under registry of the People's Republic of China, vessel was recently re-engined. Built in 1951 as the *Pine Tree Mariner*, she was converted to a passenger ship and operated by Matson Navigation and later by Pacific Far East Lines as the *Mariposa*. Laid-up in 1978, she was transferred to current ownership and registry in 1983. Arrived Hong Kong 7/7/85.

(d) *Regina Prima* (10,153 GRT)—Laid-up in Piraeus, Greece, since 1979 under Panamanian registry. Owner is Armadores Romanza, S.A. Built in 1939 as *Panama* and operated by Panama Canal Company. Transferred to foreign registry in 1964.

(e) *Universe* (13,950 GRT)—Currently operated under Panamanian registry for World Explorer Cruises by the C.Y. Tung affiliate Island Navigation Corporation. Built in 1953 as *Badger Mariner*, vessel was later converted to passenger ship and operated as *Atlantic* by American Export Lines. She was transferred to foreign registry in 1971. Present passenger capacity is approximately 1,002. Vessel sailed from Vancouver 7/1/85 on a cruise.

(f) *Oriental President* and *Oriental Empress*, formerly *President Cleveland* and *President Wilson*, respectively, were both scrapped overseas after periods of foreign operation.

(g) *Monterey* (14,799 GRT)—Laid-up at San Francisco since 1979. Owned by pension fund of Masters, Mates and Pilots. Never reflagged. Sister to *Mariposa*, she was built in 1951 as *Free State Mariner*, and later converted to passenger vessel. Operated by Matson and Pacific Far East Line under current name.

Senator INOUYE. Thank you, Mr. Chairman.

Senator STEVENS Senator Kasten.

Senator KASTEN. Mr. Chairman, I don't have an opening statement.

Senator STEVENS Very well. Thank you.

Our first witness is Garrett Brown, the Acting Deputy Maritime Administrator for the Maritime Administration. Mr. Brown.

STATEMENT OF GARRETT E. BROWN, JR., ACTING DEPUTY MARITIME ADMINISTRATOR, MARITIME ADMINISTRATION; ACCOMPANIED BY EDMOND FITZGERALD, OFFICE OF TRADE STUDIES, AND ROBERT PATTON, ACTING CHIEF COUNSEL

Mr. BROWN. Thank you, Mr. Chairman and members of the Subcommittee on Merchant Marine.

Senator STEVENS Would you tell us for the record who is with you?

Mr. BROWN. Yes. Accompanying me this morning is Mr. Edmond Fitzgerald from the Office of Trade Studies and Mr. Robert Patton, the Acting Chief Counsel of the Maritime Administration.

We are pleased to appear this morning to present the views of the Department of Transportation with respect to S. 1461. The first section of the bill would require the Secretary of Transportation, for a period of 2 years, and subject to the conditions set forth in the section, to document as a vessel of the United States entitled to engage in the coastwise trade, any U.S.-constructed passenger vessel of not less than 10,000 gross tons and with accommodations for not less than 100 passengers, and which was previously sold and transferred to foreign ownership, registry and flag with approval of the U.S. Government.

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The U.S.-constructed passenger vessels eligible for redocumentation under the first section of S. 1461 were transferred foreign either pursuant to specific legislation or the general authority of this department to approve such transfers under Sections 9 and 37 of the Shipping Act of 1916 as amended.

Specific legislation was enacted to authorize the foreign transfer of six vessels, as Senator Inouye just stated—the *Brasil*, the *Argentina*, the *Constitution*, the *Independence*, the *Santa Paula* and the *Santa Rosa*. All but the *Santa Rosa* were transferred foreign pursuant to this authority. The *Santa Rosa* remains in lay-up in Baltimore.

Thereafter, legislation was enacted specifically to authorize the reflagging and U.S. coastwise operation of the *Independence* and the *Constitution*. As you know, these vessels are currently operating in the intra-Hawaii cruise trade. The *Santa Paula* is currently the Kuwait Marriott Hotel, and as we understand it, is not presently operable as a passenger vessel.

Therefore, we believe that the only vessels transferred foreign pursuant to specific legislation that would be eligible for redocumentation under Section 1 of this bill would be the *Brasil* and the *Argentina*. Both these vessels are now 27 years old. Currently named the *Liberte*, the *Brasil* is owned by American Global Lines—American Hawaii Cruises—is under Panamanian registry, and is understood to be undergoing renovations in Japan.

Currently named the *Bermuda star*, the *Argentina* is operating under Panamanian registry for a subsidiary of Bahama Cruise Lines.

With respect to vessels eligible for redocumentation under the first section of the bill that have been transferred foreign under the general authority, the following vessels would appear to be eligible.

The *Mariposa*, which was constructed in 1953, converted in 1956 to a passenger cargo vessel and operated until 1978. She was transferred foreign in 1983 and currently named the Jin Jiang, owned by the Shanghai Jin Jiang Shipping Company, and operates under the registry of the People's Republic of China.

The *President Roosevelt* was constructed in 1944 and operated until 1970 when transferred foreign. Currently named the *Emerald Sea*, the *President Rroosevelt* is operated under Panamanian registry by Eastern Cruise Lines, Inc. of Miami, FL.

The *America* was constructed in 1940, operated until 1964, when she was sold and transferred foreign. She is currently owned by Silver Moon Ferries Limited of Piraeus, Greece, and reported to be in lay-up. She is to be renamed the *Alferdoss*.

The *Atlantic* was constructed in 1953, reconstructed as a passenger vessel and operated until transferred foreign in 1971. She is currently named the *Universe* and operating under Liberian registry for World Explorer Cruises by Island Navigation Corporation.

The *Monterey* was constructed in 1932, operated until 1970 when transferred foreign. She is currently named the *Britanis* and operated under Panamanian registry by Chandris Cruises.

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The *Lurline* was constructed in 1932 and operated until 1963 when she was transferred foreign. She is currently named the *Ellinis*, owned by Australia Line under Greek registry and is in lay-up.

The *Panama* was constructed in 1939 for the Panama Canal Company, operated until transferred foreign in 1964. She is currently named the *Regina prima*, owned by Armadores Romanza, S.A., registered in Panama, and she has been laid up in Piraeus since 1979.

Those are all the vessels that we could locate that would be affected by this bill.

Section 2 of S. 1461 provides a 2-year ban against the *Brasil* operating outside the intra-Hawaiian Islands. Similarly, the coastwise privileges provided by the bill for any other reflagged vessel would be lost if the reflagged vessel operates in the intra-Hawaiian Island trade during the first 2 years of operation.

Mr. Chairman, the Department of Transportation strongly supports the U.S.-flag cruise industry and strongly supports the Jones Act. Economic and national security benefits naturally flow from the operation of modern, efficient passenger vessels under U.S. flag. The department supports efforts to obtain those benefits.

The challenge has been to obtain modern, efficient passenger ships for operation under U.S.-flag to supplement the existing minimal U.S.-flag cruise operations.

As you know, the Maritime Administration has vigorously advocated a revitalization of the U.S. cruise trade. However, although it is hoped some projects are near completion, new cruise operations remain prospective only. The approach taken by S. 1461 may be useful in supplementing the U.S. passenger fleet, at least on an interim basis.

However, the bill as presently drafted is not as discriminating as we would wish. For example, it would grant coastwise trading privileges to all eligible vessels, without regard to their age or condition.

The potential beneficiaries of S. 1461, as I stated, are numerous. Many of these vessels are extremely dated, with little prospect for helping to establish the modern, efficient cruise ship operations so desired by all.

Our concern with the bill as presently drafted is that if all eligible ships are allowed to enter the coastwise trade, regardless of their condition or usefulness, their entry could preclude the development of present or future projects under U.S. registry. The wholesale entry of these ships could disadvantage existing or new Jones Act acquisitions, a result that no one wants.

We believe that reflagging U.S.-built passenger vessels that have lost their coastwise trading privileges could be consistent with the twin goals of revitalizing the fleet and preserving the Jones Act if such a proposal were couched in more limited terms than those proposed.

If the proposal not only required that any shipyard work on eligible vessels be done in the United States, but also required that existing U.S.-flag ships and those who rely on the Jones Act are not disadvantaged, that eligible vessels are both commercially and militarily useful acquisitions to the fleet, and that such vessels are modern and efficient, the department would support reflagging for cruise operations.

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With regard to a requirement that a vessel be modern and efficient, some vessels built in the U.S. in the 1950s may have been, or could be in the future, reconstructed into modern cruise ships with extended economic lives. These reconstructed vessels could assist America in establishing a broader cruise trade.

The Maritime Administration does not have specific information on the condition of these vessels that have been transferred foreign. We believe it is reasonable to require upgrading of these vessels to meet not only U.S. Coast Guard standards for safety and navigation, but also to assure the structural integrity and efficient operation under U.S. flag.

Of course, consistent with the Jones Act, any work necessary for these vessels to meet the standards should be done in U.S. shipyards.

Mr. Chairman, the Department of Transportation would support S. 1461 with amendments to accomplish the above objectives. We would be pleased to work with the subcommittee on the technical details of the amendments, which we feel will strike an acceptable balance between establishing a modern U.S. cruise trade and preserving the Jones Act for those who have relied upon and continue to rely upon it.

Mr. Chairman, that concludes my prepared statement. I will be pleased to answer any questions that you or the other members of the subcommittee may have. Thank you.

Senator STEVENS Any ships that would be reflagged under this bill would be subject to all Coast Guard safety requirements, wouldn't they?

Mr. BROWN. That is correct, Mr. Chairman.

Senator STEVENS How many of these vessels that you listed does the Maritime Administration think might be reflagged?

Mr. BROWN. That is a difficult question for me to answer. It would probably be better for the owners to answer, since I am not aware of their condition. As I look at them, as I say, there are nine of them that appear to be candidates, if you exclude the one that has become a hotel. Of these, six are operating or operational. Three are laid up.

If you look at them, you see that you have some that were built in the 1950s, some in the late 1950s; you have others that were built in the 1940s and the 1930s. I would think that the condition of the vessels would be a material fact in determining whether they could be upgraded to meet the standards that this committee would require.

Senator STEVENS I have no idea what the cost would be. I saw two or three of these ships laid-up in Athens when I was there recently. What would be the cost to take one of those—they are just shells, really—to somewhere like Korea and have them totally rebuilt and bring them into the United States? Would that still be less than U.S. shipyard construction costs?

Mr. BROWN. That is a difficult question to answer, Mr. Chairman. It would depend on the ship and the condition. I would be happy to try to amplify that for the record after consultation with our engineers. But I think it depends so much on the condition of the individual vessel involved.

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Obviously, if you were to do the work overseas to renovate it, rather than doing it in this country, there might be considerable savings involved. I don't know as to each individual ship how much work would be required. I can assume that the ships that have been in long-term lay-up have proven uneconomic to their owners in a cruise market that is fairly strong, and might not be viable candidates for reflagging.

[The following information was subsequently received for the record:]

It is difficult for MARAD to estimate the cost of rebuilding the vessels which are eligible to reflag under S. 1461 because we do not have specifications and plans describing the requirements to refurbish the vessels as cruise ships. The following describes the various considerations involved in arriving at an approximate refurbishing cost for the eligible vessels.

In August of this year, Lloyd's List published an article concerning the cost of newly constructed cruise ships delivered from European shipyards during the past few years. The price for new construction work has ranged up to $125,000 per berth. While this price includes the hull and ship's machinery pro-rated per berth, it also provides the shipowner with a vessel designed and built to state-of-the-art standards for passenger comfort and efficient operation. We estimate that 40 to 45 percent of this cost can be attributed to the hull and machinery, and therefore, refurbishing the quarters may cost approximately $70,000 per lower berth for modern competitive cruise vessels.

Reconditioning older vessels involves a myriad of other problems that offset the advantage of a readily available hull and machinery plant. Reactivation of an older vessel can lead to considerable expense to an extent initially not perceived.

Taking a laid-up passenger ship originally built in the 1940's and attempting to activate its machinery, piping, ventilation and electrical systems together with the rip-out of existing staterooms in preparation for modern hotel furnishings would be a massive project. The availability of replacement and spaces for machinery and the removal of asbestos would be major concerns. Refurbishing to meet present day safety regulations would further add to the project's cost.

Completing the reactivation work, a labor intensive effort, would be less expensive in a shipyard in the Far East. The latest statistics from the U.S. Department of Labor for hourly compensation for production workers in manufacturing industries in 34 countries show that in 1984, using the United States production labor costs as a base of 100, the relative cost in Japan was 50 and in Korea only 11. While facility overhead expense and the cost of materials might be closer to domestic costs, the low cost of production labor provides shipyards in the Far East with a competitive advantage over U.S. shipyards.

Senator INOUYE. If the Chairman would yield at this point. If my recollection is correct, and we can ask Mr. Everhard, but I believe the *Constitution* and the *Independence* cost about $20 million apiece, and the *Liberte* is scheduled for about $25 million. That would be the cost.

Mr. BROWN. And those are the newer vessels. Those vessels were all constructed in the late 1950s. Some of the others that we were referring to are 1940's or 1930's vessels.

Senator STEVENS. If they were reconstructed and not reflagged, these vessels could operate in the U.S. based cruise trade but they would be subject to the Jones Act and would be restricted in their ability to call between U.S. ports is that the difference?

Mr. BROWN. Yes.

Senator STEVENS. We have some 90 vessels coming into Alaska this year and none of them are Jones Act vessels. What is the impact economically of reflagging for such vessels? Do you know?

Mr. BROWN. The impact of reflagging would be that they could operate in the full Jones Act trade without restrictions. They would not have to make the foreign stopovers that are presently required. They

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would have more flexibility in discharging passengers at different ports of call.

It seems to me attractive enough certainly to have caused several ships to be interested in it.

Senator STEVENS Well, I have cosponsored this bill with Senator Inouye because it is a good first step towards trying to restore a domestic cruise ship capability.

Your statement indicates that these vessels, if reflagged, would have commercial and military capability. Would you like to expand on that?

Mr. BROWN. Yes, Mr. Chairman. The Navy has a requirement for trooplift capability, and they and ourselves have an interest in having ships under the American flag that not only benefit our merchant marine economically in time of peace, but could be utilized to move troops in time of war or national emergency.

Senator STEVENS Thank you very much.

Senator Inouye.

Senator INOUYE. Thank you, Mr. Chairman.

This morning I believe testimony will be provided that it is "improbable, if not impossible" for a new cost-effective U.S.-flag passenger vessel fleet to emerge from U.S. shipyards. Is that your assessment also?

Mr. BROWN. No, Senator, it is not. I know of several projects which are in very active stages to utilize U.S. shipyards either in whole or in part, whether construction or reconstruction of U.S.-flag cruise vessels.

Our shipyards have taken steps to become more cost-efficient and competitive in recent years, and I would not say that it is impossible to build a competitive ship in a U.S. yard.

Senator INOUYE. Can you identify these projects that are on-going?

Mr. BROWN. Well, I think that *United States* of course is one of them. The Adventure Cruise Lines is another one and Signet is a third one. There are others, but those are the most active that I know of, sir.

Senator INOUYE. One of the witnesses this morning will suggest that there is no real distinction between the vessels which would be admitted under this bill and the admission of foreign-built vessels. Do you feel the two situations are different?

Mr. BROWN. Yes, I do, Senator. This bill would reflag U.S.-built, U.S.-flag vessels that are currently sailing under foreign flag. This is different than reflagging a vessels that was foreign-built and never under the U.S. flag. And obviously this administration strongly supports the Jones Act and any other such proposal would have to be very carefully considered.

Senator INOUYE. According to your testimony, there will be more than one ship that could benefit from the provisions of this bill.

Mr. BROWN. Yes, Mr. Chairman.

Senator INOUYE. So contrary to what some may suggest, this is not a *Liberte* bill.

Mr. BROWN. No. As I stated, there are nine potential beneficiaries here. I also stated our concern that we have a modern, efficient fleet and that the committee put some requirements that they meet those. I can't say how many ships could or could not meet them, but there are

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several candidates here by virtue of age and operation that would seem to be able to do so.

Senator INOUYE. On the requirement, is it your contention that the present laws, especially the Coast Guard laws on health, safety and navigation, are inadequate?

Mr. BROWN. No, sir, not at all. To the extent that they refer to health, safety and navigation, we have an interest, and I think the committee shares an interest in seeing that the U.S.-flag merchant fleet is modern and efficient, and we would welcome the opportunity to work with the subcommittee to establish standards that an older U.S.-built foreign flag vessel would have to meet to become a valuable part of our merchant marine for economic and national defense purposes.

Senator STEVENS. I would be careful with that, if I were you. We have just rebuilt some battleships that were built 15 years before the oldest one you mentioned.

Mr. BROWN. And my understanding is that they are efficient and upgraded and serving their mission as intended, sir. A lot of effort and time has been put into those ships to bring them up to standards, and of course they were exceptionally well built at the time.

Senator INOUYE. I would like to say, Mr. Chairman, that I appreciate the attitude of the Administration. I think it is very productive, and I look forward to working with you and your staff.

Mr. BROWN. Thank you, Senator.

Senator STEVENS. Thank you very much, Mr. Brown. There will be questions submitted by other Senators. We would appreciate it if you would respond to them as quickly as you can.

Thank you, gentlemen, for accompanying Mr. BROWN.

The next witness is Frank Pecquex, the legislative director of the Seafarers International Union. Good morning.

STATEMENT OF FRANK PECQUEX, LEGISLATIVE DIRECTOR, SEAFARERS INTERNATIONAL UNION

Mr. PECQUEX. Good morning, Mr. Chairman. I am Frank Pecquex. I am legislative director of the Seafarers International Union. In addition to representing that union, I am representing Frank Drozak, who is president of the organization, who would certainly want to be here to testify today on this important piece of legislation. Unfortunately, he is out of the country representing the AFL-CIO at a series of meetings down in Australia.

Rather than read the statement, which is certainly going to take more than about 5 minutes, I would rather just try to summarize some of the key portions of that testimony and basically give our support for passage of this legislation.

Senator STEVENS. We will print the statement in the record.

Mr. PECQUEX. Thank you very much.

We have, as I think this committee knows, in the past supported the revitalization of the U.S.-flag merchant cruise ship capability. We have supported legislation that has resulted in the introduction of two ships, two deep sea vessels into the Hawaiian trade. And in more recent years,

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we have worked rather assiduously to try to promote the equal treatment of ships on the same status as are hotels, and that is basically to allow ships to serve as sites for business conventions that are considered legitimate expenses, and that can be deducted for income tax purposes.

On the one hand, we have been successful, and continue to be. On the other hand, on the shipboard conventions, we continue to be threatened, and we are working in the late days of this session, that when the Ways and Means and Finance Committee consider the elimination of shipboard conventions, that they not do so.

The legislation that I mentioned, the reflagging of earlier vessels and shipboard conventions, I think points out the fact that Americans can operate U.S.-flag cruise ship vessels in the domestic trade. The situation we are faced with right now I think is a crossroads, and an important crossroads.

While we can operate a vessel, we have not I think prove that we can build a vessel in the United States to operate in the domestic trade. And I say that with much regret because as a representative of a labor organization, we certainly support Buy American and Build American. There is no question about that. But we have certain restrictions. The Jones Act does not permit subsidy, and even if it did, we in this committee room know that it is not likely that there would be any funding, even if subsidies were provided for domestic operation.

We see, based on studies of the industry, that the North American hemisphere is considered a very likely target for expansion of the cruise ship industry. Many of the world's passenger ship vessels call at American ports. Sadly, with just two ships out there, we probably garner only about 2 percent of that trade, which is even less than the meagre part of our international commerce we carry on our freight ships.

We feel, though, that there is some opportunity. I think that S. 1461 is another step in that direction, of trying to come up with sensible waivers of the Jones Act, and would provide us with an opportunity to increase our share hopefully beyond. Although there was one ship that is specifically mentioned in the legislation, we in maritime labor, and I think I can speak for more than just the Seafarers in this case, would like it to be 10 or 12 or 15 ships.

I think all of us get a little upset when we can only, even in what is considered a domestic market, only carry 2 percent of American citizens aboard these vessels. And I think that this committee and the Congress should take immediate steps to try to rectify this.

As I say, S. 1461 is a step in the right direction. We would urge passage of this legislation because there are certain economic and national security features that would result from this. For the immediate, you would have one step at least brought in under this legislation that would create about 350 jobs, and that, in turn, would really create employment for about 500 seafaring personnel aboard the ship, factoring in vacation time and turnover on a vessel.

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There is a multiplier effect. Studies have pointed out that there is daily spending when a passenger is in port of about $250 per passenger, and this is based on a multiplier effect. It would, by employing 500 citizens a year, result in increased taxes for the government.

And perhaps best of all, it would be put into operation at no cost to the Government. And we think that in this day and age, whenever you can come up with a proposal that is not going to cost the government anything, that it is certainly a meritorious project that deserves full consideration.

From a national security point of view, we have for a long time urged full coordination of the merchant fleet with the naval establishment. There has been movement in this direction. Private sector seafarers are now manning a number of support vessels that the Navy operates. But we don't seek necessarily to have the U.S. Government as the main contracted operator for any of our particular unions. I am sure we would still like to see private sector or commercial operation of vessels, yet an operation that can be readily used by the Government in times of necessity.

We have recent historical indication of how passenger ships can fit into the national security fiber of military operations. The British Government, in the Falkland Islands, employed three vessels in their military activities down in that part of the world. And the United States perhaps, had it had additional passenger ships, might have been able to do likewise.

I think that it is shameful for the United States to have to ask a foreign government for use of one of their vessels to rescue American citizens from an island in which it engaged in military activities in Granada. Perhaps if sufficient vessels had been in operational status, the tragedy in Beirut, Lebanon might have been avoided, had we been able to use a passenger ship as basically just that, a floating hotel to house the Marines who were housed at the airport in Beirut.

I think too, when you look at our future responsibilities, we are a global nation. We have responsibilities outside the NATO theater of operations. It is quite likely that we might have to go it alone, without any support from the British or any other NATO country. So I think that we should have as many of these assets as possible in our own fleet.

We only have to take a page from the Soviet Union's list of passenger ships. They have 87 under operation right now. I am sure that they are a variety of sizes. Not all of them perhaps are deep sea, ocean-going vessels. Probably some of them are more limited. But if you look at their order books, they are building ten new ships, and I recall just recently in this committee, during discussions on cargo preference, there was concern registered that the Soviet fleet was even carrying American relief cargoes abroad. As was pointed out in our testimony, there are indications that employees of the Department of Defense at one time considered booking a cruise on a Soviet-flag vessel. We wish that that would never take place.

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We thank the committee for its work in the past, moving forward to develop a rebirth of a U.S.-flag passenger fleet, and we hope that this legislation will further that goal.

Senator STEVENS. Approximately how many new jobs would be created by each vessel that came back under the U.S. flag?

Mr. PECQUEX. I would want to say that if they handled in the neighborhood of 800 to 900 passengers per voyage, that there would be roughly 350 jobs aboard each ship.

Senator STEVENS. And how many on shore?

Mr. PECQUEX. That is something that I don't have information on, since we are a seagoing union. However, we could research that and provide the information for the record.

Senator STEVENS. We would appreciate it if you would.

Senator Inouye.

Senator INOUYE. Well, Mr. Chairman, I am grateful for the SIU's support here.

You spoke of the possible impossibility for new cost-effective U.S.-flag passenger vessels to emerge from U.S. shipyards because of high construction costs. Would that also apply to the U.S. liner trade?

Mr. PECQUEX. That is an issue, Senator, that we have explored often and ~~with~~ much anguish, and that is one that the Seafarers does not have a new position on at this particular point in time. But I will say that it is one that is given serious consideration, but we have not come up with a final rationalization on that.

Senator INOUYE. Thank you very much.

Senator STEVENS. We thank you very much and appreciate it if you would give us that information that you indicated you would provide.

Senator Gorton?

Senator GORTON. Thank you, Mr. Chairman.

If this bill were enacted, do you believe that it will apply effectively to anything other than the one ship which will be used in Hawaii? Specifically, do you believe that this bill would provide a real opportunity to begin passenger service between Seattle and Alaska?

Mr. PECQUEX. I sincerely hope that it would, Senator. We are down to about 16,000 jobs in the deep sea industry, and that includes all maritime labor. And certainly we cannot continue to function with just that limited number of jobs.

One of the facets that I mentioned was the fact that what we have to be concerned about is maintaining a viable maritime manpower pool. And unless legislation like this does reach the goal of providing more than one ship, I think that we are going to see a flight of trained and skilled people from the industry.

I guess if you look back, I believe it must have been 1979 when the *Independence* was first allowed to be reflagged, and there were probably hopes—you know, that question probably arose: is it only going to be one ship? Two or 3 years later, a second ship was entered into operation, and now we are faced with at least the opportunity for one additional vessel.

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We would continue to promote further expansion of this, and in major part, out of the fact that we in the maritime community need the jobs, so we want to push.

Senator GORTON I know you do and I know you hope that something that this would happen, but other than the *Liberte*, are there any of the ships which were named in Mr. Brown's testimony for which there is any plan, remote, contingent or otherwise, to refurbish and to put into the trade which would be authorized by this bill? Are we going to have to do something else with this bill if we want to have more than one additional reflagged ship in the intra-Hawaiian trade?

Mr. PECQUEX. To my knowledge, there are none, but that does not mean that there is serious consideration. Mine is based on the fact that the operational end of our organization might have some involvement in that, but more than likely the other unions, too, would have interest in promoting that.

But I truthfully do not know of any further ships that would come in at this point in time, but that doesn't mean that there isn't the possibility.

Senator GORTON Thank you.

Senator STEVENS. Thank you very much, Mr. Pecquex.

[The statement follows:]

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STATEMENT OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA, AFL-CIO

Mr. Chairman and Members of the Subcommittee, my name is Frank Drozak. I am President of the Seafarers International Union representing seamen employed on U.S.-flag vessels working in America's domestic and foreign trades. On behalf of the Seafarers Union, I would like to thank you for addressing the important issue of U.S.-flag passenger vessels and revitalization of the U.S.-flag, deep-sea cruise ship industry.

Over recent years the Seafarers International Union has advocated that Congress take steps to assist the redevelopment of the U.S.-flag passenger vessel fleet. We have supported what we believe were reasonable proposals that would enable the nation to benefit economically and strategically from the introduction of this vessel class to our active commercial fleet. We are pleased that S. 1461 would create a window of opportunity to foster further expansion of the domestic fleet.

ECONOMIC FACTORS

Some have claimed that a new, cost-effective U.S.-flag passenger vessel fleet will emerge from U.S. shipyards. Although we wish that such was the case, unfortunately all available information that we have seen indicates that it is highly improbable if not impossible. During the 1970's when building costs for conventional tonnage increased by 100 percent, the cost of building cruise vessels increased by 500 to 600 percent. In our view that is an obstacle which is too great for even the skilled and dedicated U.S. shipyard management and labor to overcome.

Such has been the case with the restoration of the *United States*. Unfortunately, restoration and conversion costs are so great in this country that the lion's share of work is being done in West Germany. Even in that case additional credits for about $10 million of the work was provided by the city of Hamburg in return for the 1,200 jobs to be generated by the project. Also, most passenger vessels in recent years have been built in Western Europe and many of the skills needed for cruise ship work may not be available among the American work force. That is a sad fact of life but a fact nonetheless. Vessels being built today, anywhere in the world must have the amenities which cruise passengers demand and expect in order to operate profitably. We do not believe that it is economically feasible to contract such a vessel in U.S. yards.

In 1959, there were 44 passenger vessels flying the U.S. flag. Today, the Nation has but two deep-sea vessels to take advantage of the cruise market which now totals to $5 billion and is growing yearly. Expansion of the U.S. passenger vessel fleet through the reflagging of ships would, of course, create expanded employment opportunities for sea/going professionals, shipyard workers and port employees. U.S. shipyards would immediately benefit from the conversion work necessary to insure that reflagged vessels conform to U.S. safety and inspection requirements. Routine repair and maintenance would provide work for U.S. shipyards on an ongoing basis.

We know also that the U.S. citizens who would be employed on those vessels would be treated fairly and enjoy decent working conditions. I believe that if Americans could see the squalor in which foreign-flag crews are forced to exist and were made aware of the substandard pay they receive and long hours they must work, the vast majority would refuse to book passage on foreign cruise vessels.

Many employees on foreign-flag cruise ships are considered either employees of a catering subcontractor, or hotel employees not covered by a particular maritime code. Such is the case for Panamanian-flag cruise ships. Aboard the Panamanian-registered *Britanis*, contracts signed by seamen were found to be in violation of Panamanian maritime law, but despite this knowledge, Panamanian maritime authorities refused to take action and suggested that an aggrieved merchant seamen could write a letter of complaint to the nearest Panamanian consulate, who have little or no working knowledge of maritime matters. In other documented cases, seamen who complained were summarily dismissed from their jobs with little or no legal redress.

As you know, some of the vessels eligible to take advantage of this proposal carry more passengers than people living in many smaller American communities. Providing passengers with what they pay for, requires a ship operator to employ more than traditional shoreside maritime services such as bunker fuel distributors and ship's chandlers. The suppliers of hotel and restaurant goods, wholesale food products, ground and air transportation and a variety of services in travel and tourism, entertainment and recreation industries would benefit as well. It should be noted also, that those goods and services will be obtained in a variety of ports, as needed, and represent only the expenditures made by vessel operators.

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Another level of economic activity would be generated by the passengers themselves. Marketing studies have found that the average passenger spends $250 a day while in port. For instance, 1,500 passengers spending a minimum of only 75 days in port will generate nearly $30 million. Nor does it consider the taxes Americans employed on U.S.-flag cruise ships would contribute to local, state and federal treasuries. Again, it must be emphasized that not all those revenues would be spent in one port. Instead, the multiplier effect of the wages and revenues of domestic flag operation would extend throughout the country.

There is much to indicate that S. 1461 is a logical proposal with more than a good chance to achieve its intended purpose. First, is the enormous untapped potential among 48 million American vacation travellers who have not yet taken an ocean cruise.

In addition, market research conducted by Wartsila, the noted Finnish builder of passenger vessels, predicts that American-flag retrofitted vessels and U.S. "West Coast Fun Cruises" have the greatest market potential of all world cruise trades. Growth was also predicted for sailings to Alaska, one-night cruises and "sailings to nowhere", all markets which could easily be served by reflagged U.S. passenger vessels.

By contrast, substantial passenger vessel revenues are currently drained from the American economy by foreign-flag vessel operators. In 1983, for instance, the port of Miami alone served more than two million passengers who spent $1,500 each, every penny on foreign-flag lines, representing almost three billion dollars of America's growing foreign debt.

That is the case not only with Miami, but other American ports as well because the overwhelming share of the U.S. market is dominated by foreign interests, operating more than fifty foreign-flag passenger cruise vessels from U.S. ports. For the most part these vessels are foreign owned and crewed, with no vested interest in American concerns beyond exploiting America's economic prosperity. These vessels are not required by law to be made available for use by the U.S. military in emergency situations. Even if they were voluntarily made available, their crews, coming mostly from the third world nations, logically have loyalty to no country but their own.

NATIONAL SECURITY FACTORS

As the Subcommittee is aware, there are important national security reasons for expanding the U.S.-flag passenger fleet. Other than the two U.S. passenger vessels serving the intra-island Hawaiian trades, current U.S. troopship capacity is limited to the aging relics anchored with the National Defense Reserve Fleet. By even the most optimistic estimates, those vessels would require 90 to 120 days to reach operational status.

One does not need a geography lesson, however, to note that Grenada, Lebanon, the Philippines, the Persian Gulf and other potential crises areas in the developing world, are not located in the European theater of operations. Of the approximately one hundred thirty developing nations, about one hundred are coastal states. Political and security realities often prevent the use of reliable land/based facilities in many regions of the globe. We need not discuss the grim details of our Marines' tragedy in Lebanon to make that point. Land facilities are easily targeted by hostile forces. Land facilities cannot change course in the darkness, they cannot take evasive action or seek shelter under the protective cover of the "defense in depth", offered by U.S. warships such as the Aegis cruiser. Only ships can take those protective measures. Lone fanatics using car bombs can destroy even well protected land-based facilities but few nations, and perhaps no terrorist organization, have the capability to penetrate extensive U.S. naval defenses.

Where would Britain have housed its fighting forces during the Falkland Islands crisis, if not aboard passenger vessels? Where would the United States safely billet its forces in similar situations which are commonplace in the resource-rich developing world?

The highly mobile shelter offered by passenger vessels is not limited strictly to military personnel. A useful example is the recent Grenada operation. As you know, in that crisis situation, the U.S. Government called on Britain to permit a passenger ship to be used for the evacuation of U.S. citizens if it became necessary. Fortunately, the limited military opposition on the island did not require its use. We must not, however, allow that lesson to go unlearned. Next time our military forces are called upon to protect U.S. interests, they might not have at their disposal an airstrip capable of landing large transport aircraft. Medical or safety evaluation by helicopter or small craft, for military or civilian personnel, to vessels steaming offshore

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might be the only option. In that case, U.S.-flag passenger ships would offer the ideal solution.

The most recent example of commercial passenger vessels called upon to support a military operation is the Falkland Islands campaign. During that engagement three British passenger vessels, the *Uganda, Canberra* and *Queen Elizabeth 2 (QE2)* were rapidly called into service. Although the foreign seamen serving on those ships refused to sail into danger in Great Britain's behalf, once British ratings were aboard, operations went smoothly. No such problem would develop on U.S.-flag vessels which carry loyal American crews.

The *Urganda* was quickly converted to a one thousand-bed hospital ship carrying a 135 member hospital team plus crew. Acting as a hospital, the *Uganda* handled forty to seventy casualties a day, once seeing 159 in four hours for a total of 730, while performing 554 battle operations and serving 212,000 meals to hungry combat troops during a four-month period.

The *Canberra* was fitted with a hospital but was used as a troopship. As a hospital, she received 172 battle casualties, all of whom survived, performed 84 operations and 5,189 lab tests, made 172 x-rays and collected 1,310 pints of badly needed blood. This was performed by 208 medical personnel and stretcher bearers as opposed to a peace-time medical staff of five. She carried 3,000 troops and the civilian crew kept them from harm despite repeated aerial attacks and constant danger.

The *QE2* served as a troop ship carrying 3,150 troops through a 100-iceberg hazard in dense fog to safely disembark troops and supplies and to evacuate 700 valient British sailors whose three ships had been sunk in the chilly South Atlantic.

SOVIET PASSENGER VESSEL FLEET

As you know, the Soviet Union has the world's largest fleet of militarily useful passenger ships. These vessels provide badly needed hard currency to finance Soviet expansionism and, more importantly, are prepared to act on a moments notice as a military auxiliary. We believe that S. 1461 would help to redress that imbalance by providing the United States with a measure of the same capability.

According to Morpasflot, the passenger vessel arm of the Soviet merchant marine, the U.S.S.R. operates 87 vessels of 25,000 berths, carrying 3.5 million passengers annually, including 600,000 foreign passengers. Western estimates have ranged as high as 50 million passengers carried annually by the U.S.S.R. fleet. The Soviet passenger fleet serves more than 100 domestic lines, 11 international lines and also operates vessels in the world cruise business. Statistics on world shipbuilding published by *Fairplay* in July 1985, list ten more modern passenger vessels to be delivered to the Soviet fleet in the next five years, more passenger vessels on order than any other nation. All of those vessels are being built in Polish shipyards which means the Soviets spend little or no hard currency to acquire the ships which will later be used to earn hundreds-of-millions of dollars in hard currency from western tourists.

In order to earn that currency, the Soviet passenger fleet has resorted to any and every device to steal business from Western operators. Soviet crews are paid a minimum of 30 percent less than western counterparts and the Soviet strive to provide their own bunkers to their fleet in order to conserve valuable hard currency. Also, insurance which is a large cost of doing business for a Western vessel operator, is supplied to Soviet vessels by the state and is, in fact, merely a paper transaction. For example, one prominent underwriter recently estimated that a 20,000 DWT, 1,150 berth passenger vessel flying the U.S. flag would pay about $500,000 per year for insurance. The cost to a Soviet operator for the same vessel would be zero.

When Britain was utilizing much of its passenger vessel capacity in the Falkland Islands campaign, the Soviets rushed in to fill the void by slashing rates and increasing available berths and very quickly captured a much larger share of the British passenger market, while simultaneously providing direct intelligence support to Argentina during the crisis. Only direct intervention by the British Government alleviated the situation. Italian operators too, have been harmed by Soviet predatory operations and Italy has required the Soviets to clear their proposed operations with Italian vessel owners, in order to insure fair treatment of Italian operators.

The Soviets, however, are quick to resort to any subterfuge, no matter how transparent, to mollify Western concerns. They have, in fact, entered into joint ventures with firms in Britain, West Germany, Italy and Japan. In addition, 30 other non-Soviet companies worldwide secure bookings on Soviet passenger vessels. In 1978, press reports in this country revealed that the Department of Defense ticket service was urging U.S. military and civilian employees to take a "party cruise" aboard the Soviet passenger vessel *Odessa*.

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Although that incident is somewhat dated, a more recent action by the Executive Branch is undermining attempts to rebuild the U.S. passenger vessel fleet. In our view, it is a bitter irony that the modest incentives to promote business and convention travel, aboard the few existing U.S.-flag passenger vessels, is under attack from the current Administration which prides itself in its resistance to Soviet militarism. While U.S. operators are fighting their own government to retain that minimal support, the Soviet Union, arch enemy of free enterprise, is enthusiastically promoting Soviet vessels for "seminars, symposia and other business conferences."

Among the so-called "conferences" from which the Soviets handsomely profited, was a two-week seminar on "the Main Functions of Maritime Safety Administration in the light of IMO Convention." Not surprising, the attendees represented 39 developing nations from Africa, Asia and Latin America. The majority of speakers were Soviet and the presentation of anti-Western propaganda, however subtle, was a virtual certainty. In 1983, while the United States government was urging our NATO allies to deploy Pershing missiles in response to Soviet arms expansion, the Soviet merchant marine was being used as a tool to derail that effort. The Soviet passenger vessel, *Mikhail Kalinin* was the venue for the so-called "24th Worker Conference" which boasted as a topic; "Trade Unions in the Struggle for Disarmament." A short time later, the Soviet vessel *Lev Tolstoy* carried representatives of youth organizations from twenty countries to enlist them "in the fight against deployment in Europe of nuclear missiles." Both cruises stopped at numerous NATO ports during these essentially anti-American campaigns.

The Soviet passenger fleet is also useful in maintaining Soviet domination over its satellites. Between 1976 when such activities were confined to the Black Sea and 1980 when cruises stopped at many NATO ports on the Mediterranean and the Baltic Seas, the volume of Communist-bloc passenger sailing on Soviet vessels grew by a startling 560 percent. Such an itinerary, carrying so many Soviet-bloc passengers provides the Soviets with an enormous intelligence potential. By way of example, a Soviet merchant vessel recently entered a French port located near a sensitive military installation. The Soviets claimed the vessel carried a crew of 22 but French authorities discovered an additional "43 Soviet Navy Cadets and four instructors" aboard the 17,000 DWT vessel. Suspicious of the apparent espionage activities of the vessel, the French Government refused to allow the ship access to the port of Toulon.

One can only imagine the potential for espionage activities offered by Soviet passenger vessels which carry hundreds of crew members, thousands of passengers of various nationalities and routinely stop at ports in NATO and developing countries alike.

Clearly, it is not in the interest of the United States to allow the Soviet passenger fleet to grow and prosper by hypocritically offering Western tourists a life style they cruelly deny their own people. While they enrich themselves at our expense, they are also increasing their already substantial lead in a vital category of military assets. S. 1461 offers a partial solution to the problem and deserves the support of the broad spectrum of U.S. maritime interests. For too long, too many policymakers in this country have been blind to the implications of Soviet maritime policy and blind as well, to the absence of a coherent maritime policy in the United States.

In summary, Mr. Chairman, the Seafarers International Union offers its support for S. 1461 and will work with this panel to insure its passage and enactment into law in the near future.

Mr. Everhard, chairman of the board of Seapac Services.

STATEMENT OF CONRAD H. C. EVERHARD, CHAIRMAN OF THE BOARD, SEAPAC SERVICES

Mr. EVERHARD. Mr. Chairman, I have a short prepared statement and with your consent, I would like to read it.

Senator STEVENS. Please proceed.

Mr. EVERHARD. I want to thank you for the opportunity to testify this morning as chairman of the board of American Global Line in support of S. 1461, a bill that would permit for two years any passenger cruise

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vessel that was built in the United States and subsequently sold foreign to be brought back under the U.S. flag with domestic trading privileges.

This bill would also enable the *Liberte*, the former *Brasil*, to reenter the American cruise market with unique rights for the intra-Hawaiian Island trade during the first 2 years of operation as a vessel of the United States.

The revitalization of the American flag passenger merchant marine is only five years old. It was made possible by legislation of the 96th and 97th Congresses to repatriate two U.S.-built ships—the *Independence* and the *Constitution*. And I am proud to say that this very committee has created more than 1,000 seafaring and land-based jobs without subsidy, jobs that heretofore did not exist.

It was a tough fight for 4 years, very tough, but we finally turned the corner last year and made money, and we have reason to believe that the market in Hawaii will be able to accomodate a third vessel some time in the future because there is a growing interest in cruising and conventions at sea in the Hawaiian Islands. A third vessel would definitely help boost the U.S. tourism industry in general, and Hawaii's in particular.

At this point in time, the *Liberte*, named in the proposed legislation, is committed to sail the Tahiti itinerary in the immediate future. After the proper marketing efforts and subject to consequent market response, we fully intend to take advantage of the privilege to reflag her back under the U.S. flag and reposition her to Hawaii. We do plan to maintain the Tahiti itinerary with another but similar vessel.

This fledgling American-flag passenger industry also competes for the tax-deductible seminar and convention business with land-based facilities in places such as Mexico, Jamaica and Canada, as well as the U.S. land-based facilities. Until the law was changed just 2 years ago, the American flag passenger ships could not compete for this business at all. Fortunately, the legislature and the administration saw the inequitable policy disadvantages which could well foredoom American flag fleet passenger redevelopment if it was not recognized that it flew in the face of traditional American maritime law and policy, which treats U.S. vessels as extensions of American soil.

Mr. Chairman, in conclusion I would like to say that I applaud the efforts of this committee to increase the size of the U.S.-flag passenger cruise fleet for this meaningful bipartisan legislative initiative without compromising the integrity of the Jones Act.

Once again, I thank the distinguished chairman and this dedicated committee for its efforts and initiative on behalf of the United States flag passenger fleet.

Mr. Chairman, I would be pleased to answer any questions you or the other members may have to the best of my knowledge. Thank you.

Senator STEVENS. Thank you very much.

Does your organization or your parent organization own any vessels other than the *Liberte* which could benefit from this bill?

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Mr. EVERHARD. At this point in time, Mr. Chairman, the Secretary erroneously said that the *Liberte* was owned by American Global Line. It is not owned by American Global Line, but we have a contract to purchase the *Liberte*.

Senator STEVENS. Do you own any vessels?

Mr. EVERHARD. We own the *Constitution* and the *Independence*.

Senator STEVENS. But you have many vessels that would be reflagged other than that?

Mr. EVERHARD. We have a contract to purchase the *Liberte* and she will be our property before the enactment of this law.

Senator STEVENS. Do you have an interest in any of the other vessels that were listed by the Secretary as being eligible for reflagging under this bill?

Mr. EVERHARD. I do have, I guess, an indirect interest in the *Bermuda Star* eventually, but our company, American Global Line, has nothing to do with this vessel at this point in time.

Senator STEVENS. Thank you very much.

Senator Inouye.

Senator INOUYE. This is a rather lengthy question, but I believe I should ask this because of concerns expressed in this committee and elsewhere.

Mr. Everhard, under the law, even though a vessel is built in the United States and documented as a vessel of the United States, if it is owned by a corporation, it may not be used in the coastwise trade unless 75 percent of the interest in the corporation is owned by U.S. citizens, as required by Section 2 of the Shipping Act of 1916.

Section 2 of this act provides that no corporation shall be considered a citizen of the United States unless the controlling interest therein is owned by citizens of the United States.

Section 2 further provides that the controlling interest in a corporation will not be considered to be owned by citizens of the U.S.: (a), if the title to a majority of the stock is not vested in such citizens free from any trust or fiduciary obligation in favor of any person not a citizen of the U.S.; or (b), the majority of the voting power in such corporation is not vested in citizens of the United States; or (c), if through any contract or understanding, it is so arranged that the majority of the voting power may be exercised directly or indirectly in behalf of any person who is not a citizen of the U.S.; or (d), if by any other means whatsoever control of the corporation is conferred upon or permitted to be exercised by any person who is not a citizen of the United States.

If this bill is enacted, would the Coast Guard still have to determine that the owners of the *Liberte* satisfy this requirements before it documents the vessel with full coastwise trading privileges?

Mr. EVERHARD. Mr. Senator, the answer to that is I cannot speak for the Coast Guard but we do meet the requirements as a U.S. citizen. In other words, more than 75 percent of the American Global Lines is owned by U.S. citizens.

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Senator INOUYE. So your corporation, according to the laws of the United States, is a U.S. company?

Mr. EVERHARD. Yes, sir.

Senator INOUYE. Owned by U.S. citizens?

Mr. EVERHARD. Yes, sir.

Senator INOUYE. This bill provides for a 2 year window for U.S. built foreign flag vessels to be documented as vessels of the United States.

Do you feel that 2 years is sufficient for any of these vessels to take advantage of the bill?

Mr. EVERHARD. Mr. Senator, it is a little difficult for me to speak for the other vessels, but speaking for myself under the present circumstances, the 2 year window of opportunity is a little bit tight, and I am pragmatic about it, we have empirical knowledge because we are running an American flag passenger operation, and we know that we may need a substantial leadup time when we start increasing our capacity by 50 percent.

It would make for a more orderly transition if that window could be opened a little longer, more than 2 years; let's say 3 years. And as far as the other vessels are concerned, it all depends what state they are in, you just cannot go into a market. It takes quite a bit of time to develop a market, and I would say it would be also more comfortable if it could be opened a little wider.

Senator INOUYE. Mr. Everhard, I am certain you are aware that some have suggested that this measure will benefit only the *Liberte*, and that no other ships have demonstrated any interest in reflagging, to come under this bill. You have mentioned the *Bermuda Star*. Can you speak for the owners of the *Bermuda Star* as to whether they are interested or not?

Mr. EVERHARD. I cannot speak directly for the owners of the *Bermuda Star* on behalf of that particular vessel, but it all depends on how the market is developing, but down the line I would say it is safe to assume that the ship will be reflagged in the future. The problem is she is under a 6 year charter to the Bermuda Cruise Lines. It is a nice problem because she works for 6 years, but nevertheless, it is a problem.

Senator INOUYE. If it were not for that, they would be interested?

Mr. EVERHARD. Excuse me?

Senator INOUYE. If it were not for the 6 year restriction, they would be interested?

Mr. EVERHARD. Yes. The circumstances would be different, but now we are committed in Tahiti with a vessel, we have promoted already for a year at great expense the itinerary, we are supposed to start next year, January, it is very difficult to start up an organization like that, especially in an area like French Polynesia, and since we made that commitment more than a year ago, we will have to protect our market there, and like I said in my statement, as soon a we are ready, that we feel that the market is in Hawaii, to increase it by 50 percent, and we are counting on the convention business which is important to us. It is a business that is growing, but it has to be developed. It is not just there.

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So it looks that if the Polynesian market is there to stay, that for the foreseeable future an interim ship will have to come in when we bring the *Liberte* to Hawaii, and if we can get out of that Bermuda charter even though now—we have no intentions of getting out of it, but by that time we will make that decision. In this business you go step by step.

Senator INOUYE. Mr. Chairman, at this juncture I would like the record to show that owners of the *Monterey* have conferred with committee counsel to advise the committee that they are very seriously looking into the possibility of reflagging and coming under the provisions of this bill, if this bill ever becomes law.

What did it cost the company to prepare and refurbish the *Constitution* and the *Independence* before it went into business in the Hawaiian trade?

Mr. EVERHARD. The *Independence* was around $20 million, $16 million to $20 million. Then the *Constitution*, we learned that we had to spend a little more. It was between $20 million and $25 million.

And I think on the *Liberte* you said it correctly, it is around $25 million.

Senator INOUYE. Mr. Chairman, thank you very much.

Senator STEVENS. Senator Gorton?

Senator GORTON. Mr. Everhard, why should we only allow one ship which is reflagged under this bill to participate in the Hawaiian Islands trade? In fact, the *Monterey* may be relicensed. Why should it not have the same privilege?

Mr. EVERHARD. First of all, Senator, the way I see the bill is it is written in such a way, based on the experience of the steamship industry, in our industry you have to be careful of what you wish for because you may get it. And before you know it, you have overcapacity, and the wise men who wrote this bill know this industry. They have seen it in the North Atlantic, in the cargo business, and they have seen it in the Far East, and unless you put a little rhyme and reason in there, it is a disastrous situation for everybody. Then you have too many cooks in the kitchen, and everything is getting spoiled.

I know that we are constantly trying to cooperate in this industry. There has been an effort on the way this week in the House by Chairman Jones which is very high on courage but we hope is also high on judgment, but time will tell, unless there is a little regulation in an orderly fashion, this could well be the end for the fledgling passenger merchant marine.

Senator GORTON. So you would like this privilege, but you do not want to compete with the *Monterey*?

Mr. EVERHARD. Oh, no. Oh, no, I would love to compete, but do not forget, 6 years ago they laughed at us when we came here, but we got an awful lot of support from Senator Inouye, and on the labor side from Paul Hall, and we sat down, and it did not look so dumb, but we took a fantastic chance at the time, and they thought that we were, you know, a little bit off the wall.

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But anyway, it was hard work and many times I did feel that we perhaps made a mistake because it is a new field. This whole cruise business is younger than the computer business. It is only a little over 10 years old. All the ships we are talking about were not cruise ships, they were liner ships. They would go from point to point. It was transportation. This is a brand new business. Everybody is bandying those figures about, and the facts of life are a little different.

So I hope that more or less answers your question, Senator.

Senator GORTON I am not sure that it does.

You said you do not mind the competition, but you do not want it?

Mr. EVERHARD. At the proper time.

Senator GORTON Thank you, Mr. Chairman.

Senator STEVENS. Thank you.

Thank you very much, Mr. Everhard. We appreciate your appearance.

Our next witness is Robert Lambert, the president of Cruise America Line, Inc., Incorprated.

STATEMENT OF ROBERT L. LAMBERT, PRESIDENT, CRUISE AMERICA LINE, INC.; ACCOMPANIED BY ROBERT L. LAMBERT, JR.

Mr. LAMBERT. Good morning, Mr. Chairman. I have with me my son, Robert, Jr. here this morning.

Senator STEVENS. Good morning to both Mr. Lamberts.

Mr. LAMBERT. Thank you for the opportunity to testify on S. 1461, a bill intended to revitalize the U.S. flag cruise industry. Cruise America wholeheartedly supports the goal of injecting new life into the domestic cruise industry. Achieving that goal, however, cannot meaningfully be realized if the proposed legislation is enacted in its current form. Cruise America respectfully submits that the scope of the proposed legislation should be expanded to permit a limited number of foreign built vessels to enter the coastwise trade under limited circumstances. Such action would aid in the revitalization of the American cruise industry. It would also foster growth at all levels of th American passenger cruise industry.

The research conducted by Cruise America has identified eleven vessels which would qualify for reflagging if the legislation is enacted as proposed. In my opinion, only one of the eleven vessels, the *Liberte*, would benefit from the legislation. To summarize the information which has led me to that conclusion, four of the ships are currently laid up in total disrepair or scheduled for demolition. Four others, including the *Liberte*, are currently owned and controlled by a single investor group. Parenthetically, Mr. Chairman, it came to my attention yesterday that one of the four vessels owned by the single investor group has recently been sent to the breakers for demolition. Of the remaining three vessels, one is currently owned by the Peoples Republic of China, another is owned by a company that has previously testified in the House subcommittee that it had no interest in entering the coastwise trade, and the last is the oldest operating vessel in the world.

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Even more significant than the very limited number of vessels that could qualify for reflagging is the design and purpose of those vessels. There is a fundamental difference between a passenger cruise vessel and a vessel designed primarily as a means of transportation. A passenger cruise vessel represents a new industry that emphasizes the resort aspects of the vessel rather than the movement from one geographical point to another. The vessels under consideration in this bill were originally designed to transport passengers and cargo from point to point.

The cruise ship industry that we are today discussing requires an entirely different type of equipment to fulfill the requirements of the product being sold, namely, a vacation alternative for which a floating resort is required. The 10 vessels which potentially could be reflagged were constructed for transportation purposes and not for pleasure or resort purposes. That factor is important because the older transportation vessels are deep draft, wide-beam ships. Thus, if the proposed legislation is enacted in its present form, the likely result will be a cruise industry limited to operation out of the Hawaiian ports or traveling btween Hawaii and several deepwater ports on the west coast.

Certainly none of the old fuel-inefficient vessels covered by the proposed legislation would be traveling to any ports where only shallow draft vessels could operate. Also, because of the wider beams of these ten vessels, only one would be able to pass through the locks into the Great Lakes. Indeed, if the *Liberte* is the only ship that is reflagged, then no mainland ports could be visited for the first 2 years of that vessel's operation, regardless of how deep the port.

Thus, proposed legislation would not address the market demand existing at ports able to handle only shallow draft ships where we believe there exists a principal mainland market for the cruise industry.

Cruise Ameica also believes that if the proposed legislation remains unchanged, a question exists about whether set specials could compete with foreign vessels which currently are offering more and more cruises to Americans on a virtually uncontested basis. For example, the average age of the 11 vessels is 41 years. Certainly the advanced age of those vessels raises a question about whether potential investors would commit the funds to make such ships competitive with the modern foreign ships currently offering cruises to Americans.

Further, a question exists about whether the sailing public would opt for cruises on such older vessels.

Nevertheless, Cruise America wishes to emphasize that it supports the concept of permitting foreign flag vessels originally built in the United States to be reflagged. Certainly the efforts of Cruise America to reflag two foreign built ships have the same objective of injecting new vitality into the U.S. passenger cruise industry.

That goal, however, will not be achieved under the proposed legislation currently before you.

With respect to the goal of maintaining the integrity of the U.S. cabotage laws, Cruise America must respectfully disagree that such a proposal would in reality be achieved by passage of the proposed legisla-

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tion. The cabotage laws of this country do not distinguish between foreign built ships and ships built domestically and subsequently sold to foreign interests. For purposes of applying the cabotage laws, each type of ship is considered to be a foreign vessel.

Moreover, Cruise America submits that the ten vessels that would be affected by the proposed legislation should realistically be viewed as foreign vessels. These vessels have been intensively competing with foreign built vessels on a head to head basis in the international cruise trade. Many of the 10 vessels have been rebuilt in foreign yards, and all certainly have received extensive repairs abroad.

Thus, while these vessels were first built in American yards, they are in practical terms surely as foreign as those vessels built in foreign yards.

Perhaps one example best illustrates the point. The *Liberte* which received a construction differential subsidy when she was built in 1958, and thereafter received an operating subsidy, has been registered in three different foreign countries since losing her status as an American flag vessel thirteen years ago. After being owned by various foreign interests, the *Liberte* was purchased last year for a reported $10 million. During the period from 1972 to 1984, approximtely $63 million was invested in the *Liberte* for rebuilding and repairs in foreign shipyards. Currently the *Liberte* is berthed in Sasebo, Japan where she is reportedly receiving $25 million worth of rehabilitation.

Cruise America, however, does not advocate that the *Liberte* should be denied an opportunity to be reflagged. Rather, what Cruise America advocates is that the Congress should enact legislation which recognizes the current realities of the U.S. cruise industry. Those realities are that the industry vitally needs a large dosage shot in the arm, that deep sea passenger vessels have not been constructed in American yards for decades, and modern cruise vessels have never been constructed because of the very high cost of construction; and finally, that American workers deserive the opportunity to participate in a revitalized cruise industry.

To recognize current realities, Cruise America submits that the scope of the proposed legislation be enlarged to permit a limited number of foreign built vessels to enter the coastwise trade during the 2 year window provided in the proposed legislation. Such action would both contribute to a revitalized industry and complement the operation of those vessels that would be affected by the currently proposed legislation.

First, domestic operation of foreign built vessels would add both onboard and shoreside jobs. Additionally, Cruise America stands ready to assure that all future rebuilding, refurbishing and repairs for vessels it would attempt to have reflagged, such as the *Countess* and *Princess*, would be carried out in American shipyards. Further, we suggest that any replacement vessels be constructed in U.S. yards.

Thus, while the proposed legislation allows a vessel such as *Liberte* to be rebuilt or refurbished in foreign yards prior to availing itself of the benefits of the proposed legislation, Cruise America would commit to having all of the rebuilding, repairs and replacements of the *Countess* and *Princess* done in the United States.

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Another factor which favors more expansive legislation is that Cruise America now stands ready to enter the domestic cruise market. While 10 vessels potentially could be covered by the proposed legislation, most are not currently capable of taking advantage of that legislation. In any event, an interest in reflagging has been demonstrated to date by the owners of only 1 of those 10 vessels, the *Liberte*.

Moreover, Cruise America submits that reflagging of a small class of modern, foreign built vessels is consistent with the spirit of the Jones Act. As Cruise America understands the motivating purpose of the Jones Act, it was intended to promote growth in the domestic maritime fleet and provide American shipyard workers with jobs. Reflagging the *Countess* and *Princess* and other similar vessels would be consistent with that goal for it would provide jobs where none now exist, and also enlarge the size of America's passenger cruise fleet.

Indeed, allowing these vessels to be reflagged so that they can operate on the coast of the mainland and in the Great Lakes would complement the proposed legislation. Such vessels in conjunction with the operation of deep draft vessels could provide Americans with the full range of sailing opportunities.

Moreover, we are aware of the concerns of some who believe that to permit an exemption to the cabotage laws would establish an unwelcome precedent of far-reaching consequence for the U.S. maritime industry. We would commend to your attention, however, the example of the historic *Delta Queen*. The hull and machinery of that vessel were constructed in Scotland, and other portions of her propulsion equipment were made in Germany. The operation of that vessel in U.S. trade since 1926, however, has not served as a precedent for allowing a host of other foreign-built vessels into the domestic cruise trade. The long period of almost 60 years since the *Delta Queen* first began domestic operations serves as the best evidence that the floodgates will not be opened if the scope of the proposed legislation is expanded to permit the limited entry of a few foreign-built, American-owned, maintained and manned ships.

Finally, Cruise America submits that reflagging of vessels such as the *Princess* and *Countess* would also benefit our military preparedness. We need fuel-efficient, modern vessels that have a proven military capability. Because such vessels could operate on each coast of the mainland United States, an important strategic objective would be served. In this regard, it is reported that the Navy now supports proposals that would increase the number of modern, diesel powered passenger vessels that could be used for trooplift.

You may remember, Mr. Chairman, that the *Countess* was used for those purposes during the Falkland conflict.

Mr. Chairman and members of the subcommittee, the proposed legislation pending before you seeks the same objectives of those sought by Cruise America. We believe that if the proposed legislation is expanded to allow reflagging of a limited number of foreign vessels, the goal of the proposed legislation will not be compromised but enhanced.

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Thank you.

Senator STEVENS. How old are the two ships you want to reflag?

Mr. LAMBERT. They are less than 10 years old.

Mr. LAMBERT, JR.The *Countess* was built in 1976, and the *Cunard Princess* in 1977.

Senator STEVENS. Have they already been refurbished?

Mr. LAMBERT. Not for the service that we intend, no, sir.

Senator STEVENS. How substantial would be the refurbishing in the U.S. shipyards?

Mr. LAMBERT. We use the term conversion, and the conversion would be very substantial shipyard work, probably in the neighborhood of $10 million per ship.

Senator STEVENS. Have you negotiated with any shipyards? Do you have any contracts, any agreements should they be reflagged?

Mr. LAMBERT. We have no contracts and agreements. We have done considerable work, though, detailing what would be required through our naval architects, and we have talked to a number of yards and have a general idea of the scop and cost of that work.

Senator STEVENS. I introduced the bill to reflag those two vessels last year, or the year before last. We were not able to get that approved by the Congress.

Senator Inouye?

Senator INOUYE. Thank you very much.

Mr. Lambert, you testified that because of the age of the so-called ships that may become potential beneficiaries of the bill, that they could not really compete with foreign vessels currently offering cruises to the United States, but is it not true that the *Bermuda Star* and the *Emerald Seas* are now competing with foreign built vessels?

Mr. LAMBERT. Senator, there are locations throughout the world where the older election can compete, such as the Hawaiian Islands and the Bahaman Islands where the distances are very short, where you run at very slow speeds, where you can use a ship like that, where price is a big factor.

What we are suggesting in the overall scope of things, in our opinion, it would be like trying to compete in the airline business with operators that have 727s and 747s trying to compete with a DC-3. We just do not think it is in the overall scheme of things practical.

Senator INOUYE. As I understand, financial experts have testified that the repeated efforts to have the Cunard vessels enter our domestic trade has had a chilling effect on efforts to raise capital to build vessels in the United States. Because of the high costs of the U.S. built vessel, competition with Cunard would be impossible.

What are your thoughts on that?

Mr. LAMBERT. Senator, I think we must realize that the competition is not between U.S. flag ships. The competition is 60 some foreign operators that trade in the United States today and that vie for the American passenger, and I think it would be folly to think that we can legislate the American public to pay more money to go on and older flag just because it has the U.S. ensign on the stern.

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Senator INOUYE. According to the testimony before this subcommittee on September 29, 1983, by Mr. Ralph M. Bahna, president and managing director of the Cunard Limited, you made a preliminary agreement with Cunard which expired at the end of 1983.[1]

Has that agreement been extended?

Mr. LAMBERT. Yes, sir, our agreement is still in place.

Senator INOUYE. For how long?

Mr. LAMBERT. For quite some period of time.

Senator INOUYE. So the testimony Cunard gave in 1983 was not accurate.

Could you tell us how long this extension is?

Mr. LAMBERT. Senator, as we did before, as we suggested before, we do not believe it would be proper to make public our business plans. We would, however, be pleased to meet with your staff and review the documents as we did before.

Senator INOUYE. You have indicated that a limited number, and that is the word you have used, of foreign built vessels, be permitted to enter our domestic trades.

Are you not suggesting that we give a monopoly to a few ships like the two Cunard ships?

Mr. LAMBERT. No, sir, I am suggesting that any other operators that are out there should step forward and be given an opportunity to compete in the marketplace.

Senator INOUYE. So that is unlimited?

Mr. LAMBERT. I would think, as has been suggested in the bill and the discussion here today, that initially some limit, to pick a figure of say five ships for the initial 2-year period, until that absorption rate is met, and then additional ships thereafter, would be more sensible. But in my opinion, that is not a critical point.

Senator INOUYE. It has been said that new vessels cannot be constructed in U.S. yards because of the cost.

Do you agree with that?

Mr. LAMBERT. That was our experience several years ago. We put forth considerable effort to try to construct a new vessel, and the economics just were not there.

Senator INOUYE. But you have indicated that if you were permitted to bring in the two Cunard vessels, the replacements would be constructed in U.S. yards.

Mr. LAMBERT. Yes, sir.

Senator INOUYE. How would that change?

Mr. LAMBERT. We do not know that it would.

Senator INOUYE. You have indicated it would be too costly to build them.

Mr. LAMBERT. At the present time that is our view, yes, sir. But hopefully, should we and other operators be successful and prove that there is a market, and it should be a very strong market for a number of vessels, that time would prove that it would be economically feasible to construct in the United States.

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1 See hearing Serial No. 98-49, Sept. 19, 1983, p. 31.

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At this point——

Senator INOUYE. Your costs will come down?

Mr. LAMBERT. Hopefully, costs would come down and the marketplace would prove that it could support a higher cost.

Right now that is an unknown factor.

Senator INOUYE. Do you have any thoughts on the *Monterey*? I ask this because the owners of the Monterey have indicated interest in reflagging.

Mr. LAMBERT. No, sir, I do not. All I can say is it is not the type of ship that our company would be interested in operating in the mainland U.S. cruise market.

Senator INOUYE. Mr. Chairman, I have several other questions that I would like to submit to Mr. Lambert and ask that he respond to them.

Senator STEVENS. Very well.

Senator INOUYE. Mr. Chairman, I also have a letter from Senator Heflin relating to this bill, and I request that this letter be made part of the record.

Senator STEVENS. It will be.

Senator STEVENS. Senator Gorton?

Senator GORTON. Thank you, Mr. Chairman.

Mr. Lambert, as you well know, I was one of those who opposed your bill in the last Congress because of the seeming possibility that cruise ships would not be built in the United States. At this point, in your written statement it is certainly correct in that none of those proposed construction contracts have actually come to fruition.

Assuming that we agree with the philosophical thrust of your statement, that is, that the exemption which is granted here should be considerably broadened so that there is true and competitive American flag cruise ship industry, why should we not just open it up to anyone and make a statement that any operator who agrees to do the refurbishing in the United States and to build replacement vessels in the United States will stand on an equal footing with everyone else.

Mr. LAMBERT. I have no problem with that concept. I think free enterprise is what this couintry is all about, and that is how it should be.

Senator GORTON. That is the only question I have for you.

Thank you very much.

Thank you, Mr. Chairman.

Senator STEVENS. There are no further questions. We would appreciate it if you would respond to Senator Inouye's questions.

That is the end of the list of people who requested to testify on this matter.

Senator Inouye, do you have any further questions?

[The statement follows:]

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STATEMENT OF ROBERT L. LAMBERT, PRESIDENT, CRUISE AMERICA LINE, INC.

Thank you Mr. Chairman and Members of the Subcommittee for providing Cruise America with an opportunity to testify on S. 1461, a bill intended to revitalize the U.S. flag cruise industry. Cruise America wholeheartedly supports the goal of injecting new life into the domestic cruise industry. However, achieving the goal of a revitalized cruise industry cannot meamingfully be realized if the proposed legislation is enacted in its current form. Moreover, while the proposed legislation is also intended to maintain the integrity of the cabotage laws of the United States, achieving that objective by means of the proposed legislation will be more ephemeral than real. Cruise America respectfully submits, Mr. Chairman, that the scope of the proposed legislation should be expanded to permit a limited number of foreign-built vessels to enter the coastwise trade under limited circumstances. Such action would aid in the revitalization of the American cruise industry. It would also help to achieve the fundamental purpose of the cabotage laws, namely to foster growth at all levels of the American passenger cruise industry.

Cruise America has pursued the goal of entering the United States coastwise passenger cruise trade since 1976. In this regard, Cruise America appeared before this Subcommittee in 1983 to testify in favor of permitting foreign-built vessels to be reflagged as U.S. vessels. During those hearings, however, this Subcommittee was assured by various witnesses that the construction of cruise vessels in American shipyards was imminent and that legislation was therefore unnecessary. Such construction has not begun and Cruise American joins with those who have concluded that the national interest cannot be served by further delay based on a hope that construction might begin sometime in the future.

The bill which is being considered today, S. 1461, recognizes that positive steps must be taken now to revitalize the U.S. cruise industry if it ever is to have an opportunity to become competitive with the rest of the world cruise industry. That is a goal which we all share and the only question is how best to achieve it. Cruise America submits that the legislation which is currently before this Subcommittee will not sufficiently revitalize the U.S. passenger cruise industry.

The proposed legislation would, for a period of two years, permit any passenger vessel originally built in the United States but thereafter sold to foreign interests to be reflagged as a U.S. vessel with Jones Act privileges. The research conducted by Cruise America has identified eleven vessels which would qualify for reflagging if the legislation is enacted as proposed. Those eleven passenger vessels are the following: S.S. *Anthinai*, S.S. *Bermuda Star*, S.S. *Britanis*, S.S. *Ellinis*, S.S. *Emerald Seas*, S.S. *Jin Jiang*, S.S. *Liberte*, S.S. *Noga*, S.S. *Oriental Empress*, S.S. *Regina Prima*, and S.S. *Universe*.

Of the eleven vessels which would qualify for reflagging under the proposed legislation, the S.S. *Liberte* would, in my opinion, be the only beneficiary. To summarize the information which Cruise America has gathered: four of the ships are currently laid up in total disrepair or scheduled for demolition; four others, including the *Liberte*, are currently owned and controlled by a single investor group; and of the remaining three vessles, one is currently owned by the Peoples Republic of China, another is owned by an operator who previously has testified before a House subcommittee that his company has no interest in entering the coastwise trade and the last is the oldest operating vessel in the world.

Even more significant than the very limited number of vessels that could qualify for reflagging is the design and purpose of those vessels. It is critical for this Subcommittee to recognize the fundamental difference between a passenger cruise vessel and a vessel designed primarily as a means of transportation. A passenger cruise vessel represents a new industry that emphasizes the resort aspects of the vessel rather than the movement from one geographic point to another. This Subcommittee must recognize that the vessels under consideration in this bill were originally designed to transport passengers and cargo from point to point. The "cruise ship industry" that we are today discussing as being in need of revitalization requires an entirely different type of equipment to fulfill the requirements of the product being sold, namely a vacation alternative, for which a "floating resort" is required. The competition in this market is very keen as there are approximately sixty foreign ships now competing in U.S. ports for American passengers. The majority of these foreign-owned vessels are modern, fuel-efficient, high-density vessels with complete resort amenities.

The eleven vessels which potentially could be reflagged pursuant to the proposed legislation were constructed for transportation purposes and not for pleasure or resort purposes. That factor is of crucial importance because the older transportation vessels are deep-draft, wide-beam ships which require deep ports for their operation. In constrast, a ship designed to operate primarily in the coastwise trade is

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typically a shallow draft vessel able to visit a much larger number of ports. Thus, if the proposed legislation is enacted in its present form, the likely result will be a cruise industry limited to operation out of Hawaiian ports or traveling between Hawaii and several deepwater ports on the west coast. Certainly, none of the eleven vessels covered by the proposed legislation would be traveling to any ports where only shallow draft vessels could operate inasmuch as the shallowest draft of the eleven ships is 26 feet. Also, because of the wider beams of these eleven vessels, only one would be able to pass through the locks into the Great Lakes. Such circumstances would exclude visits by cruise ships to many ports including Alexandria, Virginia and many Great Lakes ports. These ports, however, are among those that a shallow-draft, narrow-beam vessel could visit and have been specifically identified by Cruise America as ports that it would visit. Indeed, if the S.S. *Liberte* is the only ship that is reflagged, then no mainland ports could be visited for the first two years of that vessel's operation, regardless of how deep the port. In these circumstances, Cruise America submits that a domestic coastwise cruise trade will not materialize. Rather, the vessels currently covered by the legislation could, under the most optimistic circumstances, serve only a limited number of U.S. ports and likely would not materially enhance the competitive position of the domestic cruise industry vis a vis foreign owned companies that currently are reaping the financial benefits resulting from operation of cruise vessels from some of the more major American ports. Cruise America believes that a passenger cruise market exists not only with respect to those cities served by deep ports also other ports where only shallow draft vessels can operate. The effect of the proposed legislation, however, would not address that market demand, which is a principal market for the cruise industry.

Cruise America also believes that this Subcommittee must recognize that if the proposed legislation remains of limited scope affecting only eleven vessels, a question must be considered about whether such vessels, even if they were to be reflaged, could compete with those foreign vessels which currently are offering cruises to Americans. For example, the average age of the eleven vessels is 41 years. Certainly, the advanced age of those vessels raises a question about whether potential investors would commit the funds that would enable such ships to reenter the domestic coastwise passenger trade on a competitive basis. If history holds any clues to resolving that question, then the prospects for a revitalized cruise industry are indeed dim. In this regard, it should be recalled that on four different occasions in the past, legislation has been enacted to permit foreign vessels originally built in the U.S. to be reflagged with Jones Act privileges. That legislation affected the S.S. *United States*, the S.S. *Santa Rosa*, the S.S. *Mariposa* and the S.S. *Monterey*. In each instance, the vessel that was the beneficiary of such legislation has not been able to initiate operations in the coastwise trade. In fact, since enactment of that legislation, the *Mariposa* has been sold to the Peoples Republic of China. Each of the remaining three vessels currently remains little more than an empty shell.

Nevertheless, Cruise America wishes to emphasize that it supports the concept of permitting foreign-flagged vessels originally built in the United States to be reflagged. Certainly, the efforts of Cruise America to reflag two foreign-built ships, the *Countess* and the *Princess*, have the same objective of injecting new vitality into the U.S. passenger cruise industry. Cruise America believes, however, that there is a very limited likelihood that the proposed legislation can achieve that goal. The reality of the situation is that only a limited number of ports would be served by very few vessels, perhaps as few as one. Moreover, given the age of the vessels and the reflagging history of other vessels, there is a substantial likelihood that the legislation, as currently proposed, would have no significant impact on revitalizing the American passenger cruise industry. If the opportunities for successfully rejuvenating the domestic cruise industry are to be enhanced, the narrow scope of the proposed legislation must be enlarged to permit the entry of other vessels that can contribute to a revitalized domestic cruise industry.

With respect to the goal of maintaining the integrity of U.S. cabotage laws, Cruise America must respectfully disagree that such a purpose would, in reality, be achieved by passage of the proposed legislation. The cabotage laws of this country do not distinguish between foreign-built ships and ships built domestically and subsequently sold to foreign interests. For purposes of applying the cabotage laws, each type of ship is considered to be a foreign vessel.

Moreover, Cruise America respectfully submits that the eleven vessels that would be affected by the proposed legislation should realistically be viewed as foreign vessels. As previously mentioned, the average age of the vessels subject to the bill is 41 years. Many of the eleven vessels have been rebuilt in foreign yards and all certainly have received repairs in foreign yards. Thus, while these vessels were first built in American yards, their identify as American-built vessels appears to have long since disappeared. Indeed, it is more than likely that the amounts spent in repairing or rebuilding each of these vessels far outstrips the original investment.

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Perhaps one example best illustrates the point. The S.S. *Liberte,* which is specifically referenced in the proposed legislation, was built in 1958 and since that time has been registered in three different foreign countries. After being owned by various foreign interests, the *Liberte* was purchased last year for a reported 10 million dollars. During the period from 1972 to 1984, approximately $63 million was invested in the *Liberte* for rebuilding and repairs in foreign shipyards. Currently, the *Liberte* is berthed in Sasebo, Japan where she is reportedly receiving $25 million worth of rehabilitation. Cruise America believes that in such circumstances it would be difficult to say that the integrity of the Jones Act is maintained solely as a consequence of the *Liberte* having originally been built in the United States.

Cruise America, however, does not advocate that the *Liberte* should be denied an opportunity to be reflagged merely because her "Made in America" designation has become somewhat obscured. Rather, what Cruise America advocates is that the Congress should enact legislation which recognizes the current realities of the U.S. cruise industry. Those realities are that the industry vitally needs a large-dosage shot in the arm; that new cruise vessels are not currently being constructed in American shipyards; and finally, that American workers deserve the opportunity to participate in a revitalized cruise industry by recognizing that the purpose of the Jones Act is to promote the cruise industry and not to hamper its growth.

To recognize current realities, Cruise America submits that the scope of the proposed legislation be enlarged to permit a limited number of foreign built vessels to enter the coastwise trade during the two year window provided in the proposed legislation. Cruise America believes that such action will contribute to a revitalized passenger cruise industry and comply with the spirit of the cabotage laws of the United States.

With reference to the *Princess* and *Countess*, the two vessels that Cruise America seeks to have reflagged, their operation in the domestic cruise market would both contribute to a revitalized industry and complement the operations of those vessels that would be affected by the currently proposed legislation. First, domestic operation of vessels such as the *Princess* and *Countess* would add approximately 1150 maritime jobs. Countless other jobs would also be added in related service industries and the local economy of each port visited by these ships would also benefit. Additionally, as Cruise America has previously testified, it stands ready to assure that all future rebuilding, refurbishing and repairs for the *Countess* and *Princess* would be carried out in America shipyards, and further, we suggest that any replacement vessels be constructed in U.S. yards. Thus, while the proposed legislation would appear to allow a vessel such as the *Liberte* to be rebuilt or refurbished in foreign yards prior to availing herself of the benefits of the proposed legislation, Cruise America would commit to having all of the rebuilding, repairs and replacement of the *Countess* and *Princess* done in the United States. Cruise America recognizes that a revitalized cruise ship industry can occur only if domestic shipyards are also given an opportunity to participate in a rebirth of the cruise industry.

Another factor which favors more expansive legislation is that Cruise America now stands ready to enter the domestic cruise market. When S. 1461 was first introduced, it was stated that the legislation would provide an opportunity for increasing the size of the domestic passenger cruise fleet. The research of Cruise America has revealed, however, that while eleven vessels potentially could be covered by the legislation, most are not currently capable of taking advantage of that legislation. In any event, an interest in reflagging has been demonstrated to date by the owners of only one those eleven vessels, the *Liberte.* Cruise America's demonstrated interest in operating in the domestic cruise industry stands in marked contrast to an unknown and unquantified interest of most owners of the eleven vessels that would qualify for reflagging under the proposed legislation. If the domestic passenger cruise industry is to be revitalized, the time has come to say that this Country can no longer forebear in hopes that inchoate interests of potential cruise operators will somehow be transformed into real action.

Moreover, Cruise America submits that reflagging of a small class of modern foreign-built vessels is consistent with the spirit of the Jones Act. As Cruise America understands the motivating purpose of the Jones Act, it was intended to promote growth in the domestic maritime fleet and provide American shipyard workers with jobs. Reflagging the *Countess* and *Princess* and other similar vessels would be consistent with that goal for it would provide jobs where none now exists and also enlarge the size of America's passenger cruise fleet. Indeed, allowing these vessels to be reflagged with Jones Act privileges would complement the proposed legislation for it would add to the domestic fleet shallow draft vessels operating along both the east and west coasts and the Great Lakes. Such vessels, in conjunction with deep draft vessels operating, for example, between the Hawaiian Islands and the west coast, could provide Americans with a full range of sailing opportunities.

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Finally, Cruise America submits that reflagging of vessels such as the *Princess* and *Countess* would also serve our national interest in terms of military preparedness. We need fuel efficient, modern vessels that have a proven military capability. Because such vessels could operate on each coast of the mainland United States, an important strategic objective would be served. In this regard, it is reported that the Deputy Chief of Naval Operations (Logistics) recently indicated in a memorandum to the Acting Maritime Administrator that the Navy supports proposals that would increase the number of domestic passenger vessels that could be used for troop lift. In such circumstances, Cruise America respectfully submits that the scope of the proposed legislation should be expanded to permit the reflagging of vessels such as the *Countess* and *Princess*.

Mr. Chairman and Members of the Subcommittee, the proposed legislation pending before you seeks the same objectives as those sought by Cruise America. We believe that if the proposed legislation is expanded to allow reflagging of a limited number of foreign vessels for a two year period, the goal of the proposed legislation will not be compromised but enhanced. Cruise America truly desires a revitalized domestic cruise industry and believes that working together, that goal can be achieved. Thank you.

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS

Question. In your testimony you list 11 vessels which would qualify for re-flagging; and you further state that of those 11, only one, the *Liberte*, would benefit from this legislation.

I note that your list fails to include the *Santa Rosa*, the *Monterey*, and the *America*.

(a) Couldn't those three vessels benefit from this legislation?

(b) On what basis do you conclude that the *Bermuda Star* could not benefit from the legislation?

(c) Couldn't the *Emerald Seas* benefit from this legislation?

Answer. The research of Cruise America indicates that there were 11 vessels which would qualify for reflagging. One vessel, the *Oriental Empress* was recently sold to scrappers and is therefore not a reflagging candidate. I have appended as Attachment I information on the remaining vessels together with copies of photographs taken on September 1, 1985 of four of those vessels, the *Athinai, Ellinis, Noga*, and *Regina Prima* which are currently located outside Piraeus, Greece.

(a) As written, the legislation appears to benefit only those vessels currently under foreign registry. The *Monterey* and *Santa Rosa* are currently registered in the U.S. To date, however, neither of those vessels has been able to initiate domestic coastwise operations despite the enactment in 1979 of Public Law 96–111 which specifically permitted those two vessels to operate as passenger and cruise vessels in the domestic coastwise trade.

The *America*, which currently is registered in Panama as the *Noga*, has been in foreign registry for 21 years and no interest has yet been expressed by any group in reflagging the *America*. Indeed, it is the understanding of Cruise America that the vessel has been laid up since 1981 and is currently under contract to a Yugoslavian yard for scrapping. The advanced age and deteriorated condition of the vessel is perhaps best illustrated by accounts of the last effort to reestablish that vessel as a cruise liner. An article describing that effort is appended hereto as Attachment II.

(b) While the *Bermuda Star* would qualify for reflagging if the proposed legislation is enacted, it was the understanding of Cruise America that the vessel was under a 6 year time charter to Bahama Cruise Line, a subsidiary of Common Brothers, Newcaster-On-Tyne, Northcumberland, England. Cruise America's information was confirmed during the course of the September 12, 1985 hearings when the Chairman of American Global Line, Inc. testified that with respect to the *Bermuda Star:* "The problem is she is under a six year charter to the Bermuda [sic] Cruise Line. That's not a problem, it's a nice one, she's working." In such circumstances, the ability of that vessel to enter the coastwise trade is significantly beyond the scope of the proposed two year window.

(c) The *Emerald Seas*, which has been in foreign registry for 15 years and was totally rebuilt in Greece, also would qualify for reflagging after reconstruction to comply with applicable Coast Guard standards. The President of Eastern Cruise Lines, owners of the *Emerald Seas*, recently testified, however, at April 10, 1985, hearings before the Merchant Marine & Fisheries Committee that his company had no interest in entering the domestic cruise market.

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Question. In your statement you say that if S. 1461 were enacted the "likely result" will be a cruise industry limited to operation out of Hawaiian ports or traveling between Hawaii and several deepwater ports on the west coast, because the vessels which could benefit from S. 1461 are deep-draft vessels which require deep ports for their operation.

(a) Don't two of the vessels you have identified now operate as passenger cruise vessels out of east coast ports (*Emerald Seas; Bermuda Star*)?

(b) Isn't it accurate to say that most international liner cargo vessels have a deeper draft than any of the vessels which would benefit from S. 1461, and therefore any port on the east coast, gulf coast, or west coast which could accommodate those liner vessels could also accommodate these passenger cruise vessels?

Answer. The *Emerald Seas* and *Bermuda Star* currently operate out of the deep sea east coast ports of New York and Miami and travel to the deepwater ports of Bermuda, Nassau and Freeport. Because of the deep drafts of these two vessels, however, neither would be able to visit scores of shallower U.S. ports, even if the vessels were to be reflagged. Examples of communities that could not be visited by deep draft vessels such as the *Emerald Seas* and *Bermuda Star* are the following: Santa Barbara and Santa Catalina Island, California; Annapolis and Cambridge, Marvland; Gloucester and Plymouth, Massachusetts; Atlantic City, New Jersey; Alexandria, Virginia and a whole host of Great Lakes ports such as Buffalo, Chicago, Detroit, Mackinac Island and Milwaukee, Wisconsin. More significantly, however, as I indicated in my response to the previous question, neither the *Emerald Seas* nor the *Bermuda Star* likely would seek reflagging if S. 1461 was enacted. In such circumstances, while those two vessels currently operate out of east coast ports, neither would operate in the domestic coastwise trade and the purpose of S. 1461 to revitalize the American cruise industry consequently would not be served.

While it is accurate that the vessels that are the subject of S. 1461 could visit ports currently served by international cargo vessels that have a deeper draft, it is Cruise America's position that it is precisely because the vessels subject to the legislation are deep draft that the impact on revitalizing the domestic cruise industry would be limited. Cruise America believes that a large part of the domestic cruise market will be developed as a consequence of cruise vessels being able to operate in shallower ports. The vessels currently subject to S. 1461, with an average draft of 28 feet, cannot include as a part of their itinerary visits to such shallower ports. Additionally, I would also note that because of the wide beam of the vessels subject to this legislation, only one would physically be capable of moving through the locks entering the Great Lakes for cruise operations. Thus, it is Cruise America's belief that the proposed legislation should be expanded so that ports able to accommodate modern, shallow-draft cruise vessels can both participate in and contribute to a revitalized domestic cruise industry.

Cruise America believes that shallower ports along each of the coasts as well as those located in the Great Lakes represent a substantially untapped market. Moreover, many of those ports are of scenic or historic interest and would therefore be valued additions to a cruise itinerary. In contrast, most international liner cargo vessels operate from ports specializing in bulk and container cargos and such facilities are often located in heavy industrial areas which would neither be conducive to passenger handling nor represent areas of particular interest to a vacationing public.

Question. You state the vessels which would benefit from this legislation should realistically be viewed as foreign vessels.

Weren't these vessels built in American yards, by American labor?

Answer. My statement that the vessels affected by this legislation should realistically be viewed as foreign vessels was based on two separate factors. First, it is my understanding that for purposes of operating in the domestic coastwise trade, the cabotage laws make no distinction between a vessel built in a foreign yard and one which was built in a domestic yard and thereafter sold to a foreign interest. In either instance, a waiver of the cabotage laws is necessary before the vessel can operate in the domestic coastwise trade.

There is also a practical basis for my statement that vessels currently subject to this legislation should be viewed as foreign vessels. Cruise America believes that while the vessels were built in domestic yards by American workers, their identity as American vessels has been eroded by subsequent events. In this regard, Cruise America believes that several significant factors must be considered.

These vessels have been under foreign registry, on average, for 16 years. Each of these vessels has received extensive modifications in foreign yards and many have been substantially reconstructed in foreign yards in compliance with foreign safety standards only. In this regard, my testimony provided the example of the *Liberte*. When that vessel was constructed, the original construction costs totalled less than $25 million. In sharp contrast, the *Liberte* received an estimated $63 million of repairs and refittings in foreign yards during the period 1972 to 1984. During this

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period the *Liberte's* capacity was increased from 342 passengers per voyage to 658 passengers per voyage. Additionally, the *Liberte* is reported currently to be receiving another $25 million in rebuilding in a Japanese shipyard where the capacity of the vessel again will be increased to 715.

During the period that ships such as the *Liberte* have been under foreign registry, foreigners, rather than Americans, have been employed to crew the vessels. Revenues generated from the operation of the vessels have also gone to foreign interests. In this regard, the *Liberte*, and her sistership the *Bermuda Star*, for example, have transported approximately 825,000 passengers during the period that those vessels has been under foreign registry. In stark contrast, only an approximate 54,000 passengers were carried during the period that the ships were registered as U.S. flag vessels. Thus, the economic benefits to foreign interests far outweighs the benefits previously received by American interests. These circumstances add further weight to the view that, as a practical matter, the vessels that currently would benefit from the proposed legislation are foreign vessels.

Cruise America wishes to emphasize, however, that its purpose is not to highlight the legal or practical reasons that it views as foreign the vessels that currently would be subject to the proposed legislation. Rather, Cruise America's purpose is to urge the Congress to recognize that if the intent of the legislation is to be achieved, namely to revitalize the domestic cruise industry, the scope of the legislation must be expanded. I therefore proposed in my testimony before the Subcommittee that a limited number of foreign-built vessels be permitted the opportunity to be reflagged during the two year "window" currently provided in the proposed legislation.

Question. In 1983, the Department of Defense informed you that it was unable to support your petition for an administrative waiver of our cabotage laws. The Department did not agree with your contention that such a waiver for the Cunard *Princess* would enhance our Nation's military preparedness by strengthening the available sealift capacity for national defense purposes. The Department of the Treasury also informed you that it was unable to determine that a waiver was necessary in the interest of national defense.

If the situation has changed and if our national defense now requires the Cunard vessels, the law provides for an administrative waiver, does it not?

Answer. An administrative waiver potentially is available for any vessel currently prohibited by the cabotage laws from entering the coastwise trade, including those vessels that are the subject of the proposed legislation. Cruise America believes, however, that reflagging of vessels initially should be considered as part of an overall legislative approach to the issue of revitalizing the cruise industry.

At the time the Department of Defense first considered Cruise America's request for an administrative waiver, it did so in light of whether there was at the time any existing national emergency which would have required an immediate need for the vessel. The Department of Defense determined that an emergency need did not then exist and therefore did not grant the waiver. The Department of the Treasury, the governmental entity responsible for administering the Defense Department's decision, acceded to DOD's determination. Subsequent to that determination, it seems that a generic review has been undertaken regarding the long-term sea lift needs of the military. As reflected in Attachment III, the Joint Chiefs of Staff concluded that, on an overall, long-term basis, there existed a need for a troop lift capability for 17,000 military personnel and the Navy, in such circumstances, would now lend its support to "any proposal by an operating company" that would increase the number of American flag vessels.

With specific reference to the vessels that Cruise America seeks to have reflagged, the *Countess* has already demonstrated an ability to meet national defense requirements like those contemplated by the Department of the Navy. For example, during the conflict in Grenada, the Department of State requested that the *Countess* be made available to evacuate American citizens from that island. Additionally, the *Countess* was used by the British government for 9 months during the Falklands conflict to shuttle troops, supplies and dependents between Anscencion Island and the Falklands. Together, the *Princess* and *Countess* could provide a troop lift capacity for a substantial portion of the requirement imposed by the Joint Chiefs of Staff that the Navy be able to transport by sea 17,000 troops. Transportation of troops on the *Princess* and *Countess* would be achieved by means of modern, higly-maneuverable, high-density, diesel-propelled, shallow-draft vessels that would be in operation on both coasts and therefore available for transporting troops and military supplies on short notice.

Senator STEVENS. Thank you very much.

[Whereupon, at 11:45 a.m., the subcommittee recessed subject to the call of the Chair.

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ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
Washington, DC, September 12, 1985.

Senator DANIEL INOUYE,
U.S. Senate, Washington, DC.

DEAR DANIEL: I commend you and the distinguished Chairman of the Merchant Marine Subcommittee, Ted Stevens, for holding today's hearing on S. 1461. I strongly support this legislation which will help to increase the size of our U.S. passenger cruise fleet without compromising the integrity of our cabotage laws. I urge the Committee to take prompt action on reporting the bill in its current form, and without expanding the Jones Act exemptions currently provided in the bill.

With warmest personal regards, I am

Sincerely yours,

HOWELL HEFLIN, *U.S. Senator.*

STATEMENT OF PAUL H. WELLS, PRESIDENT, ADVENTURE CRUISE LINES

My name is Paul Wells. I am the president of Adventure Cruise Lines.

I believe I am in a unique position to comment upon S. 1461. Since 1972 I have been associated with companies operating foreign-flag passenger ships and have directly observed the anomaly of massive growth of the American cruise trade while United States-flag ships have virtually vanished from the seas.

In my view the time is right to begin to reverse this trend. To that end, Adventure Cruise Lines is currently designing a passenger ship to be constructed in the United States, to be documented under United States-flag, to be manned by Americans and to be operated in the American cruise trade. We have been working on this project for over a year and have developed nearly complete design and engineering package, as well as a market study. We have applied to the Maritime Administration for a guarantee of debt obligations under title XI of the Merchant Marine Act, 1936. We have also arranged equity financing and are in the final stages of detailed negotiations of a shipyard contract which we expect to award this month. To make this project a success, we have assembled a team of seasoned professionals to oversee and participate in the construction process and to market and operate the vessel. All of this work involves a substantial investment.

We believe the price which we will pay for this new ship will alow it to be competitive in the U.S. cruise trades. Generally speaking, shipbuilding in the United States is perceived to be, and in many instances is, quite costly. I believe, however, there are shipyards in the United States that can compete with any yard in the world, both in price and quality. These yards have a proper balance of management and low overhead. They also employ modular construction rather than constructing the vessel as a whole, which permits much smaller yards to compete. In addition, the use of prefabricated interior bulkheads, bathrooms and other facilities has greatly reduced the requirement for skilled craftsmen to fabricate these items in place on the vessel.

All of our planning and market studies are premised on current law. We undertook this project with the knowledge that there were two major passenger ships presently in service in the United States. As stated above, we have substantial investment in this project and will, in the very near future, finalize our additional funidng and start construction. We feel that Senate Bill S. 1461 is ill-timed with regard to promoting passenger shipbuilding in the United States. In our view, this project is important not only to Advanture Cruise Lines but to the maritime industry at large. Allowing the *Liberte* or any other former U.S. passenger vessel to be reflagged would frustrate the Adventure Cruise Lines project which, we believe, will provide confirmation that the United States can be competitive in shipbuilding as well as provide jobs for American shipyard workers.

The threat of a reflagging bill at this critical juncture with our project just weeks away from fruition is of major concern in formalizing and finalizing our financial package. According, I respectfully ask that no action be taken to approve S. 1461 at this time to allow Adventure Cruise LInes to proceed in the atmosphere in which the project was originally conceived.

I thank you for the opportunity to present my views to this subcommittee.

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STATEMENT OF PETER J. LUCIANO, EXECUTIVE DIRECTOR, TRANSPORTATION INSTITUTE

Mr. Chairman and Members of the Subcommittee, my name is Peter J. Luciano. I am Executive Director of the Transportation Institute, a non-profit research and education organization dedicated to the preservation and promotion of a strong U.S.-flag merchant marine. Our 170-plus member companies operate U.S.-flag vessels in the Nation's foreign and domestic shipping trades, including the inland waterways and Great Lakes.

On behalf of the Transportation Institute, I would like to express our support for S. 1461, which would grant a two-year window for passenger vessels built in the United States but subsequently sold foreign to redocument under the American flag and enter the domestic, coastwise passenger cruise trade. Such legislation is long overdue. There are currently only two oceangoing U.S.-flag passenger vessels active in the U.S. cruise trade—the S.S. *Independence* and the S.S. *Constitution*. Both were admitted to the trade by legislation similar to S. 1461, and both have proven that the domestic cruise market can be profitable for American operators. However, a vast untapped potential for additional U.S.-flag cruise vessels in the domestic trades still exists and remains to be cultivated. S. 1461 would permit present and future U.S.-flag operators to further develop this market.

Since the S.S. *Constitution* was reflagged in 1982, an abundance of proposals to renovate existing ships or build new cruise vessels in American shipyards have been advanced. Yet invariably, each of these proposals has foundered and no additional ships have joined the active fleet. We can no longer wait for speculative newbuilding projects while foreign operators rapidly expand their North American services and consume the domestic market. It is time that positive steps are taken to boost the U.S.-flag cruise industry and actively expand the U.S. passenger cruise fleet, allowing it to take advantage of the flourishing American economy and the public's heightened interest in cruising.

There is little need to detail the multiple advantages and benefits of an expanded and active U.S.-flag passenger fleet. The Members of this Subcommittee are well aware of the economic gains additional American vessels would deliver to the U.S. economy. The creation of thousands of American jobs; increases in federal tax revenues from cruise operators, employed citizen crews, and allied support industries; increased economic activity for American hotel, food, travel, and entertainment services; and the accompanying recirculation of billions of U.S. dollars in the U.S. economy would all occur. This Subcommittee is also well aware of the enormous national security benefits. Thanks to the British experience in the Falkland Islands, the military utility of commercial passenger vessels was superbly demonstrated and is now well documented. The United States, seriously lacking in similar passenger ship capacity, desperately needs active and available passenger vessels to call upon for use as troop ships and hospital ships in times of emergency. Passage of S. 1461 would significantly enhance this capacity.

It should be duly noted that all of these benefits can be obtained at absolutely no cost to the federal government. By simply permitting the reflagging and entry into the domestic trades of former U.S.-flag passenger ships, the U.S. government may sit back and reap the harvest of its wisdom, allowing private U.S. business concerns to absorb the costs of bringing these vessels on-line and maintaining their operational availability. Such reflagging persents a no-lose situation that our Nation cannot afford to foresake.

I would be remiss, however, if I did not also point out a serious threat to U.S.-flag cruise potential. That threat is a provision in the President's proposed tax reform plan which would eliminate tax deductions for business expenses incurred while attending conventions aboard U.S.-flag passenger vessles. This provision is instrumental in attracting U.S.-flag cruise business, and has been vital to the success and profitability of the two active American vessels.

The great injustice of this tax proposal is that while it would eliminate this tax preference for conventions held aboard U.S.-flag passenger vessels, it would retain it for conventions and seminars held at land-based facilities in Canada, Mexico, and the Caribbean, as well as at shoreside facilities in the United States. We believe that it would be grossly unfair and to the detriment of U.S. national interests for American taxpayers to subsidize convention and seminar business in foreign nations, while simultaneously undermining the viability of the U.S.-flag passenger fleet. Moreover, it represents terribly shortsighted economic policy. The U.S. Treasury stands to gain much more in federal revenues from the expanded tax base and extended economic activity of a revitalized U.S. passenger fleet than it would lose through convention tax deductions. We urge the Subcommittee to seek to retain this tax provision as it applies to U.S.-flag passenger vessels.

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The U.S.-flag passenger fleet may be on the verge of a magnificent revival. The demand for domestic cruises has been shown to exist and is believed to be extensive; this market simply awaits development. We must not delay any further in taking advantage of this potential, lest the Nation's economy turn sour or foreign interests capture this demand. S. 1461 provides the mechanism to actively expand the fleet and accelerate the industry's revitalization. we urge the Subcommittee to expeditiously seek Congressional passage of this legislation.

Thank you.

KIERNAN, O'BRIEN & LAROCCA,
Washington, DC, September 27, 1985.

Hon. TED STEVENS,
Chairman, Merchant Marine Subcommittee, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: We are the attorneys for United States Cruises, Inc. ("USCI"). We appreciate the oportunity to comment on S. 1461. USCI owns the S.S. *United States*, which is currently undergoing refurbishment as a cruise vessel. The S.S. *United States* was the flagship of the American passenger fleet in the glory days of that industry. It is fitting that she will return to active U.S. service as the finest cruise vessel in the world.

USCI applauds the aim of S. 1461 to reinvigorate U.S. passenger shipping. It believes that S. 1461 can assist the revival of U.S. passenger shipping by assisting the return to U.S. operations of U.S. built passenger vessels. The bill's approach strikes the proper balance between the need to increase the size of the U.S. flag passenger cruise fleet and the obligation to respect the integrity of United States cabotage laws. Ships that were built in the United States, but which ceded their U.S. flag status during the decline of the U.S. passenger industry, should be given the opportunity to rejoin the U.S. as the domestic industry revives. USCI supports this legislation as it stands.

Significantly, USCI would oppose vigorously any effort to include (by direction or indirection) foreign built vessels. USCI believes, based on recent actual experience, that such an effort would have serious deleterious consequences to the financing of a U.S. cruise industry revival. Admission to the Jones Act trade of non-U.S. built vessels would render S. 1461 self defeating.

We would like to note an anomalous aspect of the bill. When the S.S. *United States* was constructed in 1952, its engines and power plant were of such an advanced quality and power that their exact specifications were classified as a military secret. Consequently, in order to prevent other nations from acquiring her militarily sensitive technology, Congress provided that the S.S. *United States* could not operate under any but the U.S. flag. Although her power plant remains impressive, it is obvious that it is no longer secret military information. Accordingly, the basis for the flag restriction on the S.S. *United States* is moot. The vessel is no different in this regard from any other U.S. built passenger ship, yet it is the only U.S. built passenger vessel that cannot benefit from the provisions of S. 1461. USCI requests that this aspect of S. 1461 be remedied.

We request that this letter be made part of the record of the hearing concerning S. 1461.

Very truly yours,

PETER J. KIERNAN.

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